



COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2005





Located on the southeast side of the San Francisco Bay, Fremont is a city of over 210,445 people with an area of 90 square miles, making it the fourth most populous city in the Bay Area and California's fifth largest city in area. With its moderate climate and its proximity to major universities, shopping areas, recreational and cultural activities, employment centers, major airports, and the Bay Area Rapid Transit system, Fremont captures metropolitan living at its best.

The Fremont area was first settled with the establishment of Mission San Jose by the Spanish. In the mid-1840's, John C. Fremont mapped a trail through Mission Pass to provide access for American settlers into the southeastern San Francisco Bay Area. In 1853, Washington Township was established, taking in the communities of Mission San Jose, Centerville, Niles, Irvington, and Warm Springs. On January 23, 1956, these communities joined together to form the City of Fremont.

City of Fremont

Fremont, California

Comprehensive Annual Financial Report

For the year ended June 30, 2005

Prepared by:
Finance Department

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City of Fremont

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City of Fremont

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December 28, 2005

To the Honorable Mayor, Members of the City Council and
Citizens of the City of Fremont, California

Various financing covenants and rules associated with restricted funding sources require the City of Fremont, California (City) to publish a complete set of financial statements presented in conformance with generally accepted accounting principles (GAAP) and audited by a firm of licensed certified public accountants. The publication of these statements is to be completed from six to nine months following the end of the fiscal year. Pursuant to the requirements noted above, we hereby issue the Comprehensive Annual Financial Report of the City of Fremont, California for the fiscal year ended June 30, 2005.

This report consists of management's representations concerning the finances of the City of Fremont. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the City of Fremont's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Caporicci & Larson, a firm of licensed certified public accountants, has audited the City of Fremont's financial statements. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City of Fremont for the fiscal year ended June 30, 2005, taken as a whole, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial management presentation. The independent auditor concluded, based on the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Fremont's financial statements for the fiscal year ended June 30, 2005, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City is part of a broader, federally mandated "Single Audit" designed to meet the needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's



internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City's separately issued Single Audit Report.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Fremont's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of Fremont, incorporated in 1956, is located at the southeast end of the San Francisco Bay and is the 4th largest city in the Bay Area and 91st among the most populous cities in the nation. The City of Fremont contains 92 square miles and serves a population of 210,000.

In addition to a large cluster of high tech companies, Fremont has attracted many biotechnology companies and is also the home of New United Motor Manufacturing, Inc., a joint venture of General Motors and Toyota, which produces 415,000 vehicles a year, including the Toyota Corolla, the Toyota Tacoma pickup truck, and the Pontiac Vibe.

During the last four years, growth in the City has slowed dramatically as a severe downturn hit the high technology companies in the Silicon Valley. The City budget has also contracted rapidly during the same period. Severe decreases in business-related revenues, loss of revenues to the State, and cost increases caused by losses and sub-par investment portfolio performance in the California Public Employees' Retirement System (CalPERS) have forced deep cutbacks in all City services. Despite seeing the first signs of possible economic recovery this year, the signals continue to be mixed and the City continues to face resource shortfalls in future budgets. Aggressive cost cutting, economic development and fee increases have helped, but they will not be sufficient to restore essential public safety and maintenance services.

The City is a general law city and, as such, does not operate under the provisions of a voter-approved charter. Like other general law cities, and charter cities with only minor differences, the City has limited ability to set tax rates. The State Constitution establishes a maximum rate for property tax and limits the growth of assessed value. The property tax collected is allocated among the jurisdictions in the City's tax rate areas based on criteria established by the State Legislature. The rates and tax base of the City's two other major general taxes, sales tax and vehicle license in lieu fees (VLF), are also controlled by the State Legislature or the Constitution, rather than the City Council.

Increases of existing local taxes and any new taxes require voter approval. Taxes used for general purposes are subject to approval by a simple majority of voters, while taxes levied for specific purposes require a two-thirds majority of voters, as do property tax levies used to pay

for debt issued to build capital assets. In November 2002, Fremont voters approved an additional tax levy to build and upgrade fire stations and other public safety facilities throughout the City. The first series of those bonds was issued in July 2003, with a second series following in April 2005.

In November 2004, the City Council placed a ballot measure on the ballot seeking new revenues in 2005/06. That measure secured 45% voter approval after a short campaign. The City is now engaged in a community outreach effort to get information about, and to better understand, the community's service needs and priorities.

Assessments have varying requirements for voter approval, ranging from approval through Council action unless challenged by a majority protest, to two-thirds voter approval, with voting rights apportioned based on the amount of the assessment. In addition, fees for facilities and services are subject to requirements that they not be set at levels that exceed the reasonable costs of providing services. As a result, fund balances generated by differences between fee revenue and related expenses are retained and designated for services and facilities that benefit fee payers.

The City of Fremont has operated under the council-manager form of government since its incorporation in 1956. Policy-making and legislative authority are vested in a five-member governing council consisting of the Mayor and four Councilmembers. The City Council is responsible for, among other things, passing ordinances, adopting the budget, approving the Mayor's nominees to commissions, and hiring both the City's manager and its attorney.

The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City, and for appointing the heads of the various departments. The City Council is elected on a non-partisan basis. Councilmembers serve four-year staggered terms, with two Councilmembers elected every two years. The Mayor is elected to serve a four-year term. The Mayor and Councilmembers are elected at large and all are subject to two-term limits.

The City of Fremont provides a broad range of services, including police and fire protection, construction and maintenance of streets, parks, storm drains and other infrastructure, recreational and cultural activities, and human services programs. The City also manages franchises for solid waste, cable television, and energy. Certain infrastructure construction and community development activities are provided through a legally separate redevelopment agency. The City Council sits as the redevelopment agency's board, and the agency functions, in essence, as a department of the City. Therefore, the Fremont Redevelopment Agency (FRDA) has been included as an integral part of the City of Fremont's financial statements. Many major public services delivered within the City's boundaries, including water, wastewater, education, regional parks, and public transportation, are provided by other agencies. The City of Fremont is not financially accountable for the operations of the franchisees or these government agencies.

The annual budget, the five-year integrated capital assets plan (which integrates capital construction, maintenance and debt issuance planning), the long range (30 year) development impact fee financial plan, financial policies governing reserves and fee supported services, and the budget resolutions serve as the foundation for the City of Fremont's financial planning and control. Departments submit operating appropriation requests in accordance with the City Manager's instructions by the middle of March each year. The City Manager makes recommendations to the City Council regarding the following year's budget in May and, after public discussion and evaluation of the City Manager's recommendations, the City Council adopts the annual budget in June of each year.

Capital budget appropriation requests are submitted for inclusion in the integrated capital assets plan (ICAP) by the end of September every two years. The City Manager's recommendations regarding the integrated capital assets plan are presented during April following the even-year City Council election, after conducting a series of City Council workshops and public hearings between December and March. The operating budget, integrated capital assets plan, and FRDA budget are coordinated and integrated in connection with each year's operating budget.

The City Council delegates budget authority through its budget resolution at the fund level. The City Manager is authorized to transfer appropriations between departments within funds and to limit expenditures in response to under-collection of estimated revenues. Transfers of appropriations between funds require City Council approval. Budget to actual comparisons are provided as part of the required supplementary information (RSI) in this report for the general fund and each major governmental fund for which the City Council has adopted an annual budget.

The City Council reviews budget results and an updated forecast three times a year: (1) at the first quarter review, (2) at the mid-year review, and (3) at budget adoption. The ICAP is reviewed biennially, and the City Council receives quarterly reports of project status and annual reports of project closeout results. The impact fee financed asset system program is reviewed annually and is comprehensively updated every five years. Redevelopment budgets are adopted annually and five-year implementation plans for the FRDA are updated every two years or as circumstances warrant. The ongoing review and long range planning focus for financial management provides numerous opportunities to identify and respond to changes in revenues and expenditures and in community priorities.

Factors Affecting Financial Condition

We believe the information presented in the financial statements is best understood when it is considered from the broader perspective of the context within which the City of Fremont operates.

Risk and volatility in funding sources collected or allocated by the State. During the last fifteen years, the City has lost its ability to set tax rates without voter approval and the State of California has diverted local revenues to offset its own budget problems. In 2004/05, the State shifted \$2.7 million of property taxes from the City and \$2.3 million from the City's redevelopment agency to help solve its own budget woes. That reduction will be repeated in 2005/06. In addition, the State has continued to withhold reimbursement for the cost of complying with most State mandates.

A constitutional amendment (Proposition 1A), passed by State voters on November 2, 2004, limits the amounts of reductions of local government revenues in 2006/07 and future years and recharacterizes those reductions as "loans" rather than "takeaways". It also limits the State's ability to borrow local revenue allocations to twice every ten years. Limits are based on the total amount allocated to local government, not the specific amounts allocated to an individual agency. Another provision permanently reduces the vehicle registration tax rate and replaces local government's lost taxes with property tax money that has been transferred from local governments annually since 1993.

The State also proposed, and the voters approved, a constitutional amendment transferring a quarter of local government's 1% sales tax rate to the State to guarantee repayment of bonds issued to finance the State's deficit in 2003/04. That sales tax was replaced with property tax that had been transferred from local governments annually since 1993. The revenue shift (referred to as the "triple flip") began in 2004/05 and will continue until the deficit bonds issued by the State to finance its budget shortfalls are repaid.

The City Council cannot control the rates of its largest revenues. Because the State has revised the allocation formula for property tax allocation pursuant to the provisions of Proposition 13, has reduced City and County sales tax rates, and has cut, then raised, then cut again the personal property tax rate for vehicles, we have concluded that these revenues should be categorized as intergovernmental revenues.

Intergovernmental revenue is subject to the control of another government. It is more volatile and more subject to restrictions on its use than other general revenues, especially locally authorized and collected taxes. Where the State has provided full or partial compensation for reducing traditional local revenue sources and where that compensation is material, the mitigating payment from the State is disclosed separately in the financial statements.

Local economy. During the last ten years, the City experienced very strong economic growth followed by a significant decline in revenues related to the condition of the Silicon Valley economy. Despite only moderate effects on consumer retail and a remarkably strong residential housing market, the business downturn has been so severe that it has forced major reductions in basic City services. Residential values have grown and nonresidential property values in Fremont have not declined significantly, despite the length and depth of the economic

downturn. Assessed value growth in Fremont in both 2003/04 and 2004/05, because of its proximity to Silicon Valley, was the second lowest of any city in Alameda County.

At the end of 2004/05, tax data indicates that the local economy may have stopped its decline and that we may see better performance in 2005/06. Economic signals, however, continue to be mixed. As the economy improves, the City will benefit from its excellent location in Silicon Valley, significant regional transportation infrastructure investment, and its supply of developable land. A major retail development at the ProLogis (formerly Catellus Development Corporation) Pacific Commons project will bring 700,000 square feet of retail space to the City when it is fully developed, and positive economic effects are already being seen. A new Wal-Mart store opened in August 2005. New car dealers continue to locate at the City's auto mall, including Jaguar, Land Rover, and Volvo, and the Lexus dealership has expanded.

CalPERS. The California Public Employees' Retirement System (CalPERS) has suffered portfolio losses and earned sub-par yields in three of the last four years. The impact of portfolio losses began to affect City retirement contributions beginning in 2003/04, and the impact was fully felt in 2004/05. Because of actions taken by the CalPERS Board to mitigate the magnitude of employer rate fluctuations, the City's actuary projects that the higher rates will remain in effect for the foreseeable future.

State budget. The City of Fremont lost \$2.7 million in general fund revenue and \$2.3 million in redevelopment tax increment revenue in the 2004/05 State budget, in addition to facing the possible loss of public safety grants and mandate reimbursements. The State passed a budget heavily dependent on debt, borrowing, and deferral of expenses that will likely create a budget deficit of \$6-8 billion in 2005/06. In addition, the budget deliberations for both 2003/04 and 2004/05 were complicated by the recall election of the Governor. On October 7, 2003, the voters recalled Governor Gray Davis and elected Arnold Schwarzenegger to replace him. The complex political environment created by the recall and the State's heavy use of borrowing to defer difficult budget decisions could create serious budget problems for the State for the next few years. This, in turn, could threaten the City of Fremont's revenues because so much City revenue depends on State budget decisions.

City Council response to budget shortfalls. The City Council supported the City Manager in reducing General Fund spending by over \$10 million in 2002/03. It also adopted a budget that reduced General Fund spending in 2003/04 by 22% compared to the budget level forecast when the 2002/03 budget was adopted. Reductions included the elimination of 224 positions, lower investment in capital projects, refunding of fixed rate lease certificates of participation, cancellation of construction of a new lease-financed fire station, and use of unspent project proceeds to pay debt service. The City Council also approved new fees to fund waste management-related maintenance services, expand fire inspection programs, and support long range planning efforts. These changes prevented additional reductions in services through the end of 2004/05. However, faced with an ongoing budget shortfall, the City Council adopted a

budget for 2005/06 that includes an additional 5% reduction in all services except public safety. This reduction will save an additional \$3.2 million annually.

In November 2004, the City Council placed a measure on the ballot to seek voter approval of a 6% utility users tax. The measure drew positive votes from 45% of the voters after a very short campaign. Since the spring of 2005, the City has been working with Fremont's residents and business community to develop solutions to Fremont's fiscal and community service challenges. The City Manager has appointed an ad hoc community task force to be an informal sounding board for staff and to offer suggestions for how the City can best interact and communicate with the Fremont community. Members of the community task force have stepped up their commitment even further and are now participating in a speakers bureau that is engaging in a dialogue with a wide array of diverse community groups and stakeholders throughout the City. The hope is that together, as a community, we can identify our priorities and figure out how to sustain Fremont as a healthy and safe community in the future.

Long term financial planning. The City Council has continued to focus attention on the long term benefits of transportation infrastructure improvement, recruitment of consumer retail uses to balance the City's business to business sales tax base, and development of a pedestrian oriented urban center in the City's Central Business District. Resources have been accumulated for the City's share of a freeway interchange that began construction in 2004/05 and that will allow completion of major upgrades to I-880 through Fremont. This interchange is the last of four using local funding to allow the completion of extensive freeway investments funded by the County, the State and the federal government. Construction has also begun on two grade separations that will increase safety, reduce congestion and facilitate extension of the Bay Area Rapid Transit District commuter rail system south to the City's Warm Springs district and from there, eventually, to San Jose. These transportation system improvements, totaling \$298 million, will receive redevelopment funding of nearly \$90 million as part of an overall plan that includes State, regional, federal and other local funds. A large part of the FRDA's fund balance and smaller amounts of the City's fund balances are designated for these projects.

Economic Development (ED) and Development and Environmental Services (DES) staff have worked closely with landowners, developers, and retailers to increase retail uses at the Pacific Commons project and the Central Business District. Pacific Commons' retail development projects include three major anchor stores (Costco, Kohl's and Lowe's) that opened during 2004/05. Downtown development, however, will take five to ten years. The City has selected a developer interested in building on a key City-owned site in the downtown area. Despite the downturn in the technology sector, consumer spending has been stable and the City's retail consultant estimates there are many opportunities for capturing retail dollars that are now spent elsewhere.

Cash management and policies. Cash temporarily idle during the year was invested in obligations of the U.S. Treasury and agencies of the federal government, commercial paper, corporate bonds, banker's acceptances, qualifying mutual funds and the State Treasurer's

investment pool. Maturities of the investments range from one day to five years, with an average maturity of 400 days. The average yield on investments not held by fiscal agents was 2.67%.

Risk management. The City of Fremont uses a program of self-insurance to reduce its workers' compensation and liability claim costs. The City employs a professional risk manager, a safety officer and staff, supplemented by professional claim administration firms, to minimize losses. The City participates in two multi-agency joint powers authorities to provide excess insurance coverage, one for liability coverage and one for workers' compensation coverage. The joint powers authorities and the City rely on estimates prepared by professional actuaries to set aside funds adequate to meet potential losses. Excess coverage provided by the joint powers authorities covers claims in excess of \$500,000 for general liability claims and workers' compensation claims. Additional information on the City of Fremont's risk management activity can be found in Note 6 of the notes to the financial statements.

Pension and other post-employment benefits. The City provides pension and medical benefits for its public safety and non-safety employees through two contracts with CalPERS. The contracts include benefit levels which the City has negotiated with its employee units and for which it has executed contract amendments with CalPERS. The plans also include some benefit levels approved by the State Legislature without contract amendment and funding mechanisms approved by the CalPERS Board of Administration. The City's contracts are not part of a larger pool and the City is responsible for making contributions needed to fund benefits when employee contributions are not adequate.

The City of Fremont also provides post-employment benefits in the form of limited contributions toward health insurance costs for certain retirees based on the provisions of labor agreements in effect at the date of the employees' retirement. These benefits are generally fixed at the date of retirement and do not increase thereafter. At the end of 2004/05, there were 520 retired employees eligible to receive these benefits, which are financed on a pay-as-you-go basis. Generally accepted accounting principles do not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits. However, in anticipation of the issuance of new accounting and reporting standards governing these benefits, the City has conducted an actuarial study of these post-employment benefits in order to quantify costs and liabilities.

Additional information on the City of Fremont's pension arrangements and post-employment benefits can be found in Note 8 in the notes to the financial statements.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Fremont for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2004. This was the 21st consecutive

Honorable Mayor, Members of the City Council and
Citizens of the City of Fremont, California

December 28, 2005

year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and legal requirements. A Certificate of Achievement is valid for one year only. We believe our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the City also received the GFOA's Distinguished Budget Presentation Award for its annual budget document for 2004/05. This was the eighth consecutive year the City received this prestigious award. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide and a communications device.

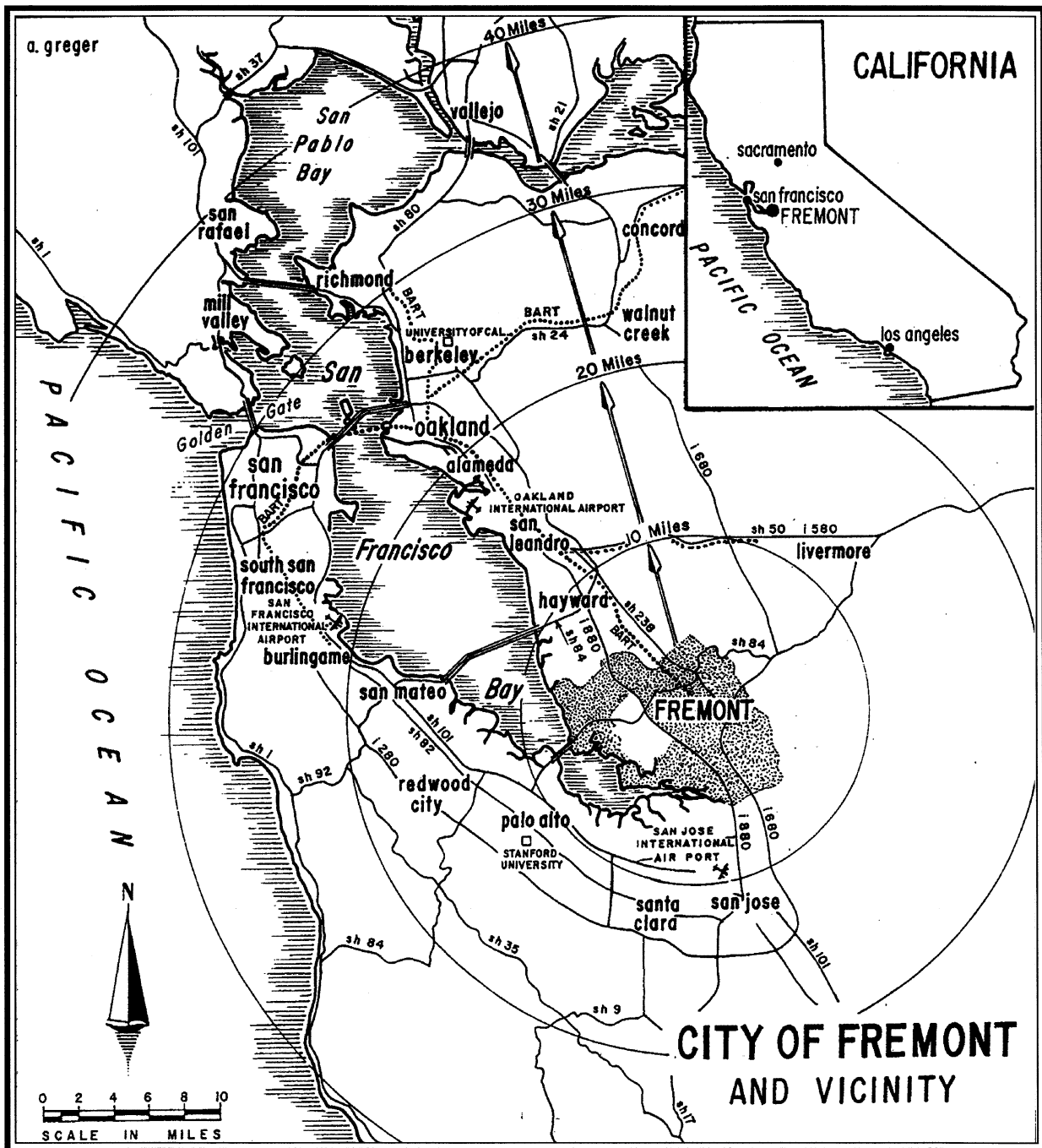
The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Department. We would also like to express our appreciation to all the members of the departments who assisted and contributed to the preparation of this report. Credit and thanks, also, to the City Manager, and the Mayor and City Councilmembers for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Fremont's finances.

Respectfully submitted,

A handwritten signature in black ink, reading "Harriet V. Commons". The signature is written in a cursive, flowing style.

Harriet V. Commons
Finance Director

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City of Fremont

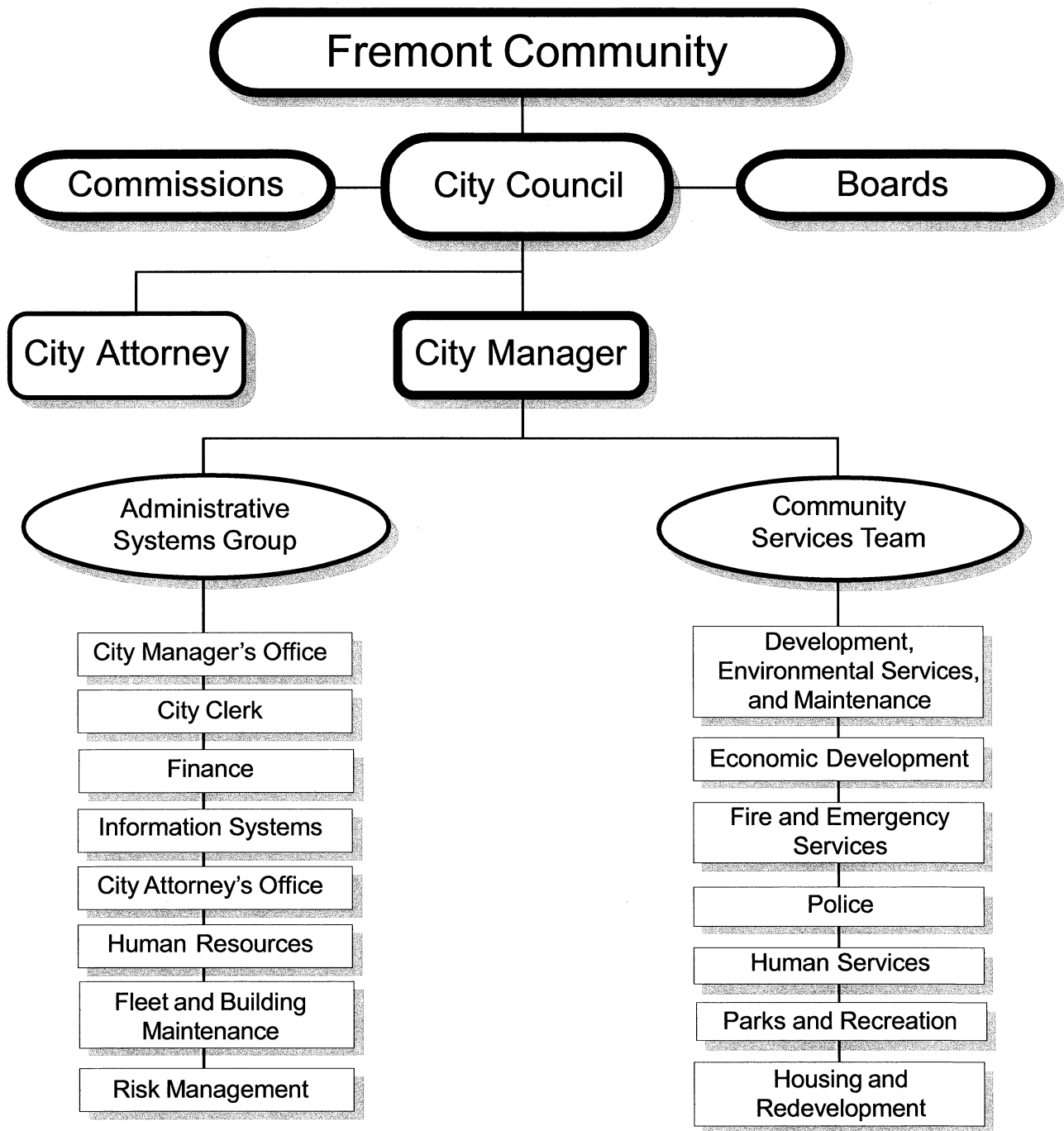
June 30, 2005

City Council

Mayor	Bob Wasserman
Vice Mayor	Dominic D. Dutra
Councilmember	Steve Cho
Councilmember	Bob Wieckowski
Councilmember	Anu Natarajan

City Staff

City Manager	Fred Diaz
City Attorney	Harvey Levine
Assistant City Manager/City Clerk	Lynn Macy
Deputy City Manager	Christine Daniel
Human Resources Director	Nancy Carlson
Finance Director	Harriet Commons
Economic Development Director	Daren Fields
Redevelopment Director	Laura Gonzalez-Escoto
Parks & Recreation Director	Annabell Holland
City Engineer	Norm Hughes
Information Systems Director	Dave Jensen
Director of Development & Environmental Services	Jill Keimach
Fire Chief	Bruce Martin
Planning Director	Jeff Schwob
Human Services Director	Suzanne Shenfil
Police Chief	Craig Steckler



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Fremont,
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Ziehl

President

Jeffrey R. Enos

Executive Director

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of City Council
of the City of Fremont
Fremont, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Fremont, California (City), as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with generally accepted accounting principles in the United States.

As described in Note 1 to the basic financial statements, the City adopted statement of the Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2005, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying Required Supplementary Information, such as management's discussion and analysis, budgetary information, modified approach for the City's infrastructure, and defined benefit pension plan information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on it.

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Costa Mesa, California 92626

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San Diego

4858 Mercury, Suite 105
San Diego, California 92111

To the Honorable Mayor and Members of City Council
of the City of Fremont
Fremont, California

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information is presented for purpose of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory Section and Statistical Tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Capricci & Carson

Oakland, California
September 23, 2005

CITY OF FREMONT, CALIFORNIA
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

This part of the City of Fremont's (City) annual financial report presents management's discussion and analysis of the City's financial activities and performance for the fiscal year ended June 30, 2005. The information presented here should be considered in conjunction with additional information presented in the transmittal letter in the Introductory Section at the front of this report, and the City's financial statements, which follow.

This is the fourth year the City has prepared its annual financial report in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34. As we continue to fine-tune the implementation of those reporting requirements, we have made some reclassifications between line items in the originally presented 2003/04 financial information so that the comparative analysis will be more meaningful. These reclassifications did not materially change amounts reported in the 2003/04 annual financial report, and did not change net assets reported in that year.

FINANCIAL HIGHLIGHTS

- The City's entity-wide net assets (excess of assets over liabilities) were \$761,644,000 as of June 30, 2005. Of this amount, \$50,687,000 may be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.
- The City's total net assets increased by \$8,777,000, largely as a result of actions taken by the City Council and City Manager to minimize costs and control spending. Although most ongoing revenues remain relatively flat, the City did recognize one-time sales tax revenues (\$4,077,000) from the resolution of a longstanding appeal with the State Board of Equalization. However, as part of the 2004/05 State budget, the State took \$2.7 million from the City's property tax and \$2.3 million from the Redevelopment Agency's property tax increment to fund the Educational Revenue Augmentation Fund (referred to as ERAF III).
- As of June 30, 2005, the City's governmental funds reported combined ending fund balances of \$284,186,000. Approximately 34% of this total amount (\$96,723,000) is reserved to indicate that it is not available for new spending because it has already been committed either to liquidate contracts and purchase orders of the prior period (\$34,026,000), or to pay debt service (\$62,697,000). The remaining 66% (\$187,463,000) constitutes unreserved fund balance that is available for spending, and has been designated for a variety of specific future uses.
- At the end of 2004/05, unreserved fund balance for the General Fund was \$36,363,000. Of this amount, \$14,378,000 was designated by City Council policy for use for costs associated with catastrophes and disasters, and \$2,876,000 was designated by City Council policy for start-up costs for future programs with potential to generate revenues sufficient to cover costs and repay the start-up investment. Both of these policies were adopted by the City Council in June 1996. In addition, \$11,176,000 was designated to provide funds to deal with significant levels of financial uncertainty related to the City's economic downturn and the unknown effects of the State budget, \$2,771,000 was appropriated in the 2005/06 operating budget, and \$449,000 was designated for fair value adjustments on the City's investment portfolio for net gains recognized by the City, but not yet realized at June 30, 2005.

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The remaining \$4,713,000 is unreserved and undesignated because it was not anticipated at the time the 2005/06 budget was adopted, which was before the 2004/05 books were closed. Had its existence been known at that time, it would have been included in the amount appropriated in the 2005/06 budget. Given the significant budget challenges the City faces over the next few years, this unreserved undesignated fund balance will be used to help balance future years' budgets.

- The City's total capital debt increased by \$18,270,000, net of debt repaid during the year. This was due to \$25,000,000 in general obligation bonds approved by the voters with the passage of Measure R in November 2002 and issued on April 15, 2005. These funds are to be used to construct replacement fire stations for Station #2 in Niles, Station #6 in Centerville, and Station #8 in North Fremont, as well as for structural strengthening of the remaining seven fire stations within the City and the construction of a public safety-training center.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements consist of a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements are designed to provide readers with a broad overview of the City's finances. They present information about the activities of the City as a whole and present a longer-term view of the City's finances. These statements include all assets (including infrastructure) and all liabilities (including long-term debt) of the City.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Changes in Net Assets presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes, and earned but unused vacation and other compensated leave).

All of the City's activities are considered to be governmental in nature and, as a result, no business-type activities are reported in these statements. Governmental activities are those that

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are principally supported by taxes and intergovernmental revenues. For the City of Fremont, governmental activities consist of police services, fire services, human services, capital assets maintenance and operations, recreation services, community development and environmental services, and general government administration.

The City is the primary government in this report. There are no discretely presented component units. However, these financial statements include three other entities that, although legally separate, are important because the City is financially accountable for them. These component units include the Redevelopment Agency of the City of Fremont, the Fremont Public Financing Authority, and the Fremont Social Services Joint Powers Authority (JPA). These component units have been included as an integral part of the City of Fremont (that is, their accounts are "blended" with those of the City) and they are not reported as separate discrete component units in these financial statements.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Fremont, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Some funds are established as required by State law or by bond covenants. Other funds are established to help control and manage money for particular purposes. For governmental activities, these statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. All of the funds of the City of Fremont can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to assist the reader with this comparison between governmental funds and governmental activities.

The City of Fremont maintains fifty-two individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund

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statement of revenues, expenditures, and changes in fund balances for the following funds that are considered to be major funds:

- General Fund
- Redevelopment Agency
- Development Impact Fees
- State Gas Tax
- Integrated Waste Management
- Development Cost Center
- Recreation Services
- Capital Maintenance

Data from the other forty-four governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund, the Redevelopment Agency, Integrated Waste Management, the Development Cost Center, and Recreation Services. Budgetary comparison statements have been provided as required supplementary information to demonstrate compliance with the budget.

Proprietary funds. The only proprietary funds the City uses are internal service funds, which are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its risk management activities and for its information technology services. Because both of these services exist to benefit governmental functions, they have been included within governmental activities in the government-wide financial statements.

Both internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The only fiduciary funds the City has are agency funds. The accounting used for these funds is much like that used for governmental funds. These funds are reported in a separate statement of fiduciary net assets.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements follow the basic financial statements.

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Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This information includes budgetary comparison schedules, as well as more detailed information about the City's use of the modified approach for certain of its infrastructure assets, and about its participation in the California Public Employees' Retirement System (CalPERS) defined benefit pension plan.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Fremont, assets exceeded liabilities by \$761,644,000 at the close of the 2004/05 fiscal year. In comparison, last year assets exceeded liabilities by \$747,701,000. Information about net assets is presented in the summary table, below:

SUMMARY OF NET ASSETS JUNE 30, 2005 AND 2004 (dollars in thousands)			
	<u>2005</u>	<u>2004</u>	<u>Percentage</u> <u>Change</u>
Current and other assets	\$ 344,150	\$ 339,476	1.4%
Capital assets	<u>710,548</u>	<u>691,179</u>	2.8%
Total assets	<u>1,054,698</u>	<u>1,030,655</u>	2.3%
Current liabilities	52,423	48,871	7.3%
Noncurrent liabilities	<u>240,631</u>	<u>234,083</u>	2.8%
Total liabilities	<u>293,054</u>	<u>282,954</u>	3.6%
Net assets:			
Invested in capital assets, net of related debt	477,491	476,712	0.2%
Restricted	233,466	223,279	4.6%
Unrestricted	<u>50,687</u>	<u>47,710</u>	6.2%
Total net assets	<u>\$ 761,644</u>	<u>\$ 747,701</u>	1.9%

By far, the largest portion of the City's net assets (63%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens. This amount increased slightly this year because proceeds of debt issued in prior years were used in 2004/05 for capital asset acquisition and construction. The amount of net assets invested in capital assets, net of related debt, is reported as a distinct component of net assets because this amount is not available for future spending. In addition, although the City's investment in its

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capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources because the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (30%) represents resources that are subject to external restrictions on how they may be used. This amount increased because of an increase in the amount of unspent debt proceeds due to the issuance of general obligation bonds during the year. The remaining balance of unrestricted net assets (7%) may be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

The City's net assets increased by \$13,943,000 (1.9%) during the current fiscal year. Of this amount, \$8,777,000 was due to current year activities and \$5,166,000 was due to a prior period adjustment for unearned revenue related to interest receivable that had been deferred in prior years but should have been recognized as interest income.

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Information about changes in net assets is presented in the summary table, below:

SUMMARY OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(dollars in thousands)

	<u>2005</u>	<u>2004</u>	<u>Percentage Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 28,345	\$ 24,769	14.4%
Operating grants and contributions	13,701	20,515	(33.2%)
Capital grants and contributions	491	741	(33.7%)
General revenues:-			
Intergovernmental:			
Allocated property tax	61,791	63,386	(2.5%)
Allocated sales tax	30,619	26,797	14.3%
Motor vehicle in lieu	4,623	3,813	21.2%
Revenue loss mitigation	11,157	5,728	94.8%
Other	457	470	(2.8%)
Other taxes and fees	26,146	22,696	15.2%
Investment earnings	7,304	3,439	112.4%
Miscellaneous and other	<u>2,461</u>	<u>1,856</u>	32.6%
Total revenues	<u>187,095</u>	<u>174,210</u>	7.4%
Program expenses:			
General government	10,927	10,497	4.1%
Police services	45,097	40,613	11.0%
Fire services	26,158	23,594	10.9%
Human services	6,007	5,532	8.6%
Capital assets maintenance and operations	33,953	35,293	(3.8%)
Recreation services	4,906	5,305	(7.5%)
Community development and environmental services	34,569	30,152	14.6%
Intergovernmental	9,762	8,941	9.2%
Interest on debt	<u>6,939</u>	<u>7,755</u>	(10.5%)
Total program expenses	<u>178,318</u>	<u>167,682</u>	6.3%
Increase in net assets	8,777	6,528	34.5%
Net assets, beginning of year	747,701	741,173	0.9%
Prior period adjustment	<u>5,166</u>	<u>-</u>	-
Net assets, end of year	<u>\$ 761,644</u>	<u>\$ 747,701</u>	1.9%

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The \$8,777,000 increase in net assets as a result of activities this fiscal year is attributable to both increased revenues and actions taken by the City Council and City Manager to minimize costs and control spending.

Revenues. Charges for services increased by \$3,576,000 (14.4%) over the prior year, primarily due to increased development activity within the Development Cost Center. The main project largely responsible for the increase was the Pacific Commons project.

Operating grants and contributions decreased \$6,814,000 (33.2%) compared to the prior year, primarily due to decreases in grants and contributions for street maintenance projects and paratransit services. There were also a variety of relatively minor decreases in other grant funding sources throughout the organization.

The City's allocated property tax decreased \$1,595,000 (2.5%). This is largely attributable to the State taking \$5 million from property tax, referred to as ERAF III, to balance its 2004/05 budget. Were it not for this State take-away, the overall growth in property tax would have been 5.4%. This growth is largely attributable to low mortgage rates continuing to support the residential real estate market. However, the City continues to watch for a possible softening of property tax revenues in the commercial real estate sector as the economic environment continues to affect Fremont's businesses and those who provide goods and services to those businesses. Although gross assessed valuation for secured property increased 5.1% from 2003/04 to 2004/05, that for unsecured personal property decreased by 15.0%. Unsecured personal property represents 4.8% of the 2004/05 total gross assessed valuation.

Allocated sales tax showed an increase of \$3,822,000 (14.3%). However, this was attributable to a one-time settlement of \$4,077,000 related to a longstanding dispute with the State Board of Equalization. Otherwise, sales tax was relatively flat, confirming the flat economic growth in Silicon Valley.

Revenue loss mitigation increased by \$5,429,000 (94.8%). In prior years, the State withheld VLF backfill payments amounting to \$3,544,000 for the last 10 days of 2002/03 and the first three months of 2003/04 as the State struggled to resolve its own budget problems. The State had promised to repay cities the value of this revenue loss (the VLF gap receivable) in August 2006. Because of the contingent nature of the VLF gap receivable, it was not recognized in the City's financial statements in 2003/04. In 2004/05, cities received a full year's worth of VLF and VLF replacement revenue. In addition, in February 2005, the City Council authorized the sale (securitization) of the City's VLF gap receivable. The transaction consisted of a sale of notes by the California Statewide Communities Development Authority (CSCDA), secured by the VLF gap receivables of a number of California cities and counties. That sale occurred in March 2005, and the City received its net proceeds of \$3,270,000 in April.

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Other taxes and fees consist of the following (dollars in thousands):

	<u>2004/05</u>	<u>2003/04</u>	<u>Percentage Change</u>
Business tax	\$ 6,092	\$ 5,324	14.4%
Other taxes	3,803	3,380	12.5%
Development impact fees	8,868	6,988	26.9%
Franchises	<u>7,383</u>	<u>7,004</u>	5.4%
Total	<u>\$ 26,146</u>	<u>\$ 22,696</u>	15.2%

The City's business tax increased relative to last year because of a one-time \$369,000 refund last year, along with increased enforcement efforts by City staff. The increase in development impact fee collections reflects the increased level of development activity, primarily related to the Pacific Commons project.

Investment earnings increased because of increasing interest rates over the course of the year, along with an increase in the fair market value (\$2,800,000) of the City's investments. In 2003/04, the average portfolio yield was 2.37%. In 2004/05, it was 2.67%, an increase of 12.7%, resulting in \$1,000,000 in increased investment earnings.

The increase in miscellaneous and other revenue is attributable to a one-time revenue accrual for a loan repayment of \$664,000 in the Redevelopment Agency fund that is used as program income to fund future programs or projects.

Program Expenses. The City's revenues continue to be under pressure. As a result, the City continued actions begun in prior years to minimize costs and control spending, including reducing staffing levels by more than 20%. After reducing program expenses from \$175,163,000 in 2001/02 to \$167,682,000 in 2003/04, program expenses increased to \$178,318,000 (6.3%) in 2004/05. This increase is not a result of program expansion, but due to increased costs, primarily in the areas of CalPERS retirement and workers' compensation costs.

Economic factors and next year's budget are discussed in more detail later in this discussion and analysis.

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Information about the total and net cost of governmental activities is presented below:

TOTAL AND NET COST OF GOVERNMENTAL ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(dollars in thousands)

	<u>Total Cost of Services</u>			<u>Net Cost of Services</u>		
	<u>2005</u>	<u>2004</u>	<u>%</u> <u>Change</u>	<u>2005</u>	<u>2004</u>	<u>%</u> <u>Change</u>
Police services	\$ 45,097	\$ 40,613	11.0%	\$ 39,773	\$ 34,937	13.8%
Fire services	26,158	23,594	10.9%	23,112	20,734	11.5%
Human services	6,007	5,532	8.6%	2,796	2,304	21.4%
Capital assets maintenance and operations	33,953	35,293	(3.8%)	24,166	18,509	30.6%
Recreation services	4,906	5,305	(7.5%)	1,432	1,814	(21.1%)
Community development and environmental services	34,569	30,152	14.6%	17,584	16,664	5.5%
General government	10,927	10,497	4.1%	10,216	9,999	2.2%
Other	<u>16,701</u>	<u>16,696</u>	0.0%	<u>16,701</u>	<u>16,696</u>	0.0%
Total	<u>\$ 178,318</u>	<u>\$ 167,682</u>	6.3%	<u>\$ 135,780</u>	<u>\$ 121,657</u>	11.6%

Both police and fire services expenses grew modestly this year, primarily due to increased CalPERS retirement and workers' compensation costs. The actual service impact is more severe than one might expect because the increased expenses did not increase services provided to the community. The CalPERS employer contribution rate for public safety employees increased from 13.092% of covered payroll in 2003/04 to 25.955% in 2004/05. For employees other than public safety employees, the contribution rate increased from 7.252% in 2003/04 to 12.944% in 2004/05. These significant increases in CalPERS employer contribution rates reflect poor investment portfolio performance at CalPERS, which is just now being reflected in employer rate calculations.

Because of decreased operating grants and contributions for capital assets maintenance and operations, expenses in this function continued to decline. Since 2001/02, the total cost of capital assets maintenance and operations has decreased 27.9% (from \$47,109,000 in 2001/02), and the net cost has decreased 22.7% (from \$31,263,000). Maintenance of the City's capital assets is an important priority, and staff continues to work to find and deploy funding in the most effective way possible. This decrease in both total cost and net cost has potentially significant implications for the long-term if this trend continues.

Recreation services expenditures decreased in response to the economic downturn and slowing demand for classes, combined with a reduction in general tax support from the General Fund. Since 2001/02, the total cost of recreation services has decreased 19.7% (from \$6,110,000 in 2001/02), and the net cost has decreased 54.3% (from \$3,133,000).

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Community development and environmental services increased because of the development activity at the Pacific Commons project, as reflected by the fact that both total cost of services and the net cost of services increased.

The total cost of general government services increased moderately as the City continues to control expenses throughout the organization. Since 2001/02, the total decrease in general government expenses has been 13.8% (from \$12,678,000 in 2001/02).

Economic factors and next year's budget are discussed in more detail later in this discussion and analysis.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The State Budget Act of 2004 substantially changed the valuation, distribution method, and timing of three major local government revenues: sales tax, vehicle license fees, and property tax. In 2004/05, the State issued Economic Recovery Bonds as part of the solution to its record budget deficit. As security for these Bonds, the State has temporarily changed the local sales tax allocation from 1% to 0.75% and replaced the reduction of local sales tax with a dollar-for-dollar allocation of local property tax from the County Educational Revenue Augmentation Fund (ERAF). The exchange mechanism will be in place as long as the Bonds are outstanding. True-up reconciliations between the actual amounts and the State estimates are done each year in October, and the actual property tax distribution is scheduled for January of the following year. The net effect of this exchange on the City is that property tax is remitted twice a year, while sales tax is remitted monthly. This causes a reduction in overall interest earnings and a potential cash flow problem.

During 2004/05, the State also permanently reduced the Motor Vehicle License Fee (VLF) from 2% to 0.65%. For 2004/05, the amount the City would have gotten from VLF at the 2% rate was calculated and this amount will be added to the property tax base through transfer from the County ERAF. In the following years, the City will receive its portion of VLF at the now-permanent low rate and the increased property tax base will grow according to economic conditions. True-up reconciliations between the actual amount of VLF and the property tax replacement were also done in October 2005, and the difference will be remitted to the City in January 2006, as part of the property tax payment process.

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of 2004/05, the City's governmental funds reported combined ending fund balances of \$284,186,000, an increase of \$8,159,000 from the prior year. Approximately 34% of

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this total amount (\$96,723,000) is reserved to indicate that it is not available for new spending because it has already been committed either to liquidate contracts and purchase orders of the prior period (\$34,026,000), or to pay debt service (\$62,697,000). The remaining 66% (\$187,463,000) constitutes unreserved fund balance that is available for spending, and it has been designated for a variety of specific future uses.

The following are the major funds that either qualified under the reporting criteria or were considered to be important to financial statement users:

General Fund – The General Fund is the chief operating fund of the City of Fremont. At the end of 2003/04, total fund balance was \$36,949,000, of which \$36,385,000 was unreserved. At the end of 2004/05, total fund balance was \$36,742,000, of which \$36,363,000 was unreserved. Of this unreserved amount, \$14,378,000 (12.5% of budgeted expenditures and transfers out) was designated by City Council policy for use for costs associated with catastrophes and disasters, and \$2,876,000 (2.5% of budgeted expenditures and transfers out) was designated by City Council policy for start-up costs for future programs with potential to generate revenues sufficient to cover costs and repay the start-up investment. Both of these policies were adopted by the City Council in June 1996. In addition, \$11,176,000 was earmarked to provide funds to deal with significant levels of financial uncertainty related to the Silicon Valley economic downturn and the unknown effects of the ongoing State budget crisis, \$2,771,000 was appropriated in the 2005/06 operating budget, and \$449,000 was designated for fair value adjustments on the City's investment portfolio for net gains recognized by the City, but not yet realized at June 30, 2005.

The remaining \$4,712,000 is unreserved and undesignated because it was not anticipated at the time the 2005/06 budget was adopted, which was before the 2004/05 accounting records were closed. This is because the final payments for both property tax and sales tax were slightly more than anticipated (an indication that economic recovery may finally be on the way), and because departments closed out the year spending less than expected when those estimates were prepared in the spring of 2004. Had the existence of this additional fund balance been known at that time, it would have been included in the amount appropriated in the 2005/06 budget. Given the significant budget challenges the City faces in the foreseeable future, this unreserved undesignated fund balance will be used to help balance future years' budgets and thus mitigate the potential need for future additional service reductions, or capital project deferrals and cancellations.

The fund balance of the City's General Fund decreased by \$207,000 during the 2004/05 fiscal year. Key factors in this decrease are as follows:

- Revenues and transfers in were 0.8% worse than projected. Positive results for property and sales tax were offset by the State take-away of property tax for the Educational Revenue Augmentation Fund (ERAF III), which kept overall core revenues flat for the year.
- Charges for services were better than projected, but this increase only served to offset the declines in other revenue sources.

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- Expenditure savings and reduced transfers out helped mitigate some of the revenue challenges, with a reduction of \$3.3 million (2.8%) from authorized budget levels. This was due primarily to the additional expenditure savings by departments, in addition to the significant budget reductions they had already taken over the past two years.
- The 2004/05 adopted budget included a planned use of \$2.9 million of beginning fund balance to help mitigate the softening of the economy and allow for a transition to our lower staffing and service levels. This planned use actually wound up being significantly less due the one-time revenues and the effective action taken to minimize expenditures as the core revenues remained stagnant.

Redevelopment Agency – The Redevelopment Agency is responsible for removing barriers to economic development caused by inadequate transportation infrastructure, and for encouraging development in underperforming historic commercial districts in the City. The Agency's operations and capital projects are funded primarily by annual property tax increment revenue of approximately \$27 million and the proceeds of \$50 million in debt issued in 2000, to be repaid out of the property tax increment revenue generated by increases in property assessed values in the redevelopment project areas. The Agency started paying principal on this debt in 2001/02. On June 5, 2004, the Agency issued tax allocation bonds in the amount of \$41,425,000 to finance and refinance certain redevelopment activities, including refunding the 2000 tax allocation bonds.

Out of the \$96,784,000 fund balance, \$56,741,000 is reserved for debt service payments, \$20,315,000 is reserved for payments related to outstanding contracts and purchase orders, and \$19,728,000 is designated for low and moderate income housing and other redevelopment purposes.

Development Impact Fees – This fund represents the aggregate total of park dedication fees, park facility fees, fire impact fees, traffic impact fees and capital facility fees. The fees are levied on all new development in the City to pay for the construction and improvement of public facilities as a result of growth. Fees collected in 2004/05 were 27.0% more than the amount collected in 2003/04. This increase in annual collections is largely due to development activity at Pacific Commons, where additional progress was made during 2004/05 towards completion of 700,000 square feet of new retail development. During 2004/05, 79% of this fund's expenditures (\$4,661,000) were for traffic-related impacts, 14% (\$800,000) were for fire-related projects, 7% (\$437,000) were for park-related projects, and an additional \$1,792,000 was transferred to other funds for use in mitigating additional traffic-related impacts and for capital facilities.

Because these funds are collected for construction or improvements of public facilities, the unreserved fund balance of \$44,841,000 is fully designated for capital projects, of which \$30,755,000 is related to park development. However, these funds have not yet been spent because of the operational maintenance impacts of adding new parks. These projects have been delayed until the economy improves and sufficient operating revenues exist to ensure that park facilities can be adequately and appropriately maintained.

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State Gas Tax – This fund is used to account for all of the gas tax receipts from the State. Normally these funds are used for the maintenance of City streets. Gas tax expenditures generally fell into four broad categories, as follows (dollars in thousands):

	<u>2004/05</u>	<u>2003/04</u>
Pavement overlays and slurry sealing	\$ 213	\$ 1,185
Street construction	852	961
Street and median maintenance	1,150	1,250
Traffic signal construction and maintenance	559	749

This fund's unreserved fund balance at June 30, 2005, is \$7,700,000, which is designated for future street maintenance.

Integrated Waste Management – This fund was established to account for monies received by the City to comply with the provisions of Assembly Bill (AB) 939, addressing recycling, household hazardous waste, and solid waste management issues. These revenues may only be spent for integrated waste management and waste reduction purposes. The City is currently in the process of completing environmental assessments for a new materials recycling facility and a transfer station, and negotiating a new disposal agreement. Funds have been accumulated to offset a portion of these costs, and to reduce the need for rate increases related to higher costs of operations of the new facilities. The unreserved fund balance of \$8,521,000 is designated for integrated waste management and waste reduction purposes and transition costs associated with the closure of the existing landfill.

Development Cost Center – This fund was established to account for the transactions and activities related to the City's development services, including engineering, planning, and building and construction inspection activities. Its customers are not only the development community, but also the City itself for its own capital projects. Fees collected in this cost center are used for the benefit of the fee payers.

Development activity is beginning to increase as the recessionary effects begin to fade. In 1999/00 and 2000/01, the total dollar valuation for building permits averaged \$357,400,000. In 2001/02, the total dollar valuation dropped to \$239,133,000. In 2002/03, the total dollar valuation dropped still further, to \$181,799,000. However, in 2003/04, the total dollar valuation increased to \$241,257,000 and in 2004/05, it increased still further to \$323,921,000. A large portion of this is due to development occurring at Pacific Commons, as well as a number of new residential developments. At the end of 2004/05, unreserved fund balance totaled \$2,639,000, down from \$3,422,000 in the prior year. This fund balance is designated for various development cost center purposes and will be used to ensure continuity of critical development services.

Recreation Services – This fund was established to account for the transactions and activities related to the delivery of recreation services. Fees collected for recreation services are used for the development of programs and facilities benefiting fee payers. At the end of 2004/05,

City of Fremont, California
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

unreserved fund balance was \$7,087,000, up from \$6,394,000 in the prior year, largely due to salary savings, an increase in interest income, and deferral of equipment replacement. In addition, every effort is made to ensure that services offered are those the community wants. This fund balance will be used to develop or maintain recreation facilities and preserve the continuity of recreation services during the remainder of the economic downturn. In addition, a portion of the fund balance is planned for a water play facility that will replace the Swim Lagoon in Central Park.

Capital Maintenance – This fund is used to maintain and operate the capital assets of the City. Primary functions include maintenance of City streets, parks, public buildings, vehicles, medians and trees. Its resources consist of transfers from the General Fund, as well as Integrated Waste Management and Gas Tax funds. At June 30, 2005, this fund had a total fund balance of \$2,935,000, of which \$2,430,000 was unreserved, but designated for future capital maintenance needs.

Non-major Governmental Funds – The City's non-major funds and are presented in the basic financial statements in the aggregate. At June 30, 2005, these funds had a total fund balance of \$75,705,000, of which \$11,596,000 is reserved for encumbrances and \$5,956,000 for debt service. The remaining \$58,153,000 is unreserved. A significant portion of these funds is designated for capital projects (\$48,381,000), with the remaining \$9,772,000 designated for other special purposes. More information about these aggregated non-major funds can be found in the combining statements immediately following the required supplementary information.

City of Fremont, California
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

GENERAL FUND BUDGETARY HIGHLIGHTS

A summary of the budgetary comparison schedule for the General Fund, located in the required supplementary information following the notes to the financial statements, is as follows:

SUMMARY OF GENERAL FUND BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2005
(dollars in thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance from Final Budget</u>
Beginning fund balance, July 1, 2004	<u>\$ 30,108</u>	<u>\$ 30,108</u>	<u>\$ 36,949</u>	<u>\$ 6,841</u>
Resources:				
Revenues	105,758	109,045	108,441	(604)
Transfers in	<u>6,929</u>	<u>6,929</u>	<u>6,591</u>	<u>(338)</u>
Total amount available for appropriation	<u>112,687</u>	<u>115,974</u>	<u>115,032</u>	<u>(942)</u>
Charges to appropriations:				
Expenditures	85,663	85,245	82,130	3,115
Transfers out	<u>29,924</u>	<u>33,254</u>	<u>33,109</u>	<u>145</u>
Total charges to appropriations	<u>115,587</u>	<u>118,499</u>	<u>115,239</u>	<u>3,260</u>
Resources over (under) charges to appropriations	<u>(2,900)</u>	<u>(2,525)</u>	<u>(207)</u>	<u>2,318</u>
Ending fund balance, June 30, 2005	<u>\$ 27,208</u>	<u>\$ 27,583</u>	<u>\$ 36,742</u>	<u>\$ 9,159</u>

Differences between the original budget and the final amended budget are due primarily to:

- Council approved transfer of \$1,669,000 to the Risk Management Fund (an internal service fund) to fund claims costs from prior years.
- Council approved transfers of \$1,226,000 to fund certain capital projects.
- Council approval of sale of the VLF gap receivable and transfer of the proceeds of \$3,270,000 to the Budget Uncertainty Reserve (a part of General Fund fund balance).

Between the time the 2004/05 budget was adopted and the books for the prior fiscal year (2003/04) were closed, the fund balance at June 30, 2004 increased by an unexpected \$6,841,000. This was largely due to departments' continuing efforts to restrain expenditures.

Allocated property tax is the City's main revenue source and, fortunately, it has continued to grow. Property tax increased from \$35,264,000 in 2003/04 to \$36,779,000 in 2004/05, a 4.3% increase. However, in 2004/05, the State took \$2,743,000 of General Fund property tax as part of

City of Fremont, California
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the State Budget Act of 2004, leaving the City with net allocated property tax of \$34,036,000, a decrease of 3.5% from the prior year.

Allocated sales tax is the City's second largest source of revenue, and it can be volatile in an uncertain economy. Revenue volatility, while common to cities nationwide, is exacerbated in the Bay Area, especially in Silicon Valley communities that rely heavily on high-tech, business-to-business sales, as Fremont does. Our actual allocated sales tax revenue for 2004/05 was \$30,619,000. However, this includes a one-time payment of \$4,077,000 related to resolution of a long-standing dispute with the State Board of Equalization. After that one-time payment is factored out, our actual allocated sales tax for 2004/05 was \$26,542,000, which is down slightly from the 2003/04 amount of \$26,796,000 (a 0.9% decrease). Even more telling, the 2004/05 amount of \$26,542,000 is \$7,963,000 (23%) less than actual sales tax collections in the peak of 2000/01. The continued decline in sales tax collections is of concern of the City. However, the stabilization may be an indication that the City's sales tax may have started to level off and may begin to slowly return to historic growth patterns.

In 2003/04, the State withheld \$3,544,000 in Vehicle License Fee (VLF) backfill money for the first three months of the fiscal year, with the promise to repay these monies in 2006/07. During 2004/05 the City participated in a sale of the VLF receivable through the California Statewide Communities Development Authority. This resulted in the City's VLF revenues being \$3,270,000 higher than normal.

Offsetting the higher Vehicle Licensing Fees was the action by the State to withhold \$2,743,000 in property tax for two years (2004/05 and 2005/06) to supplement the State's Educational Revenue Augmentation Fund (ERAF III). This action was taken by the State after the adoption of the City's 2004/05 budget and, therefore, was not anticipated.

Because of the continued uncertainty in the City's economic situation, City management took actions early in 2003/04 to aggressively manage spending. This continued in 2004/05 and resulted in expenditures and transfers out for 2004/05 coming in at 2.8% below budgeted levels. This allowed the General Fund to end 2004/05 with an operating deficit of only \$207,000, rather than the operating deficit of \$5,795,000 that was anticipated. This was achieved by the continued low variable rate interest on the City's debt, as well as continued departmental spending reductions that resulted in the City spending \$3,115,000 less than budgeted. This improves the City's ability to deal with the continuing prospect of a structural imbalance between resources and use of those resources, and continued uncertainty about the State budget and its implications for the future.

City of Fremont, California
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Following is a summary of the City of Fremont's capital assets at June 30, 2005 and 2004:

SUMMARY OF CAPITAL ASSETS
JUNE 30, 2005 AND 2004
(dollars in thousands)

	<u>2005</u>	<u>2004</u>	<u>Percentage</u> <u>Change</u>
Land	\$ 198,598	\$ 183,602	8.2%
Land improvements	5,260	5,260	-
Infrastructure - non-depreciable	367,125	366,649	-
Infrastructure - depreciable	317,013	317,013	-
Buildings and improvements	113,097	79,674	42.0%
Equipment	13,809	12,040	14.7%
Vehicles	22,230	23,591	(5.8%)
Construction in progress	<u>30,039</u>	<u>55,937</u>	(46.3%)
	1,067,171	1,043,766	(46.3%)
Less: Accumulated depreciation	<u>356,623</u>	<u>352,587</u>	2.2%
Governmental activities capital assets, net	<u>\$ 710,548</u>	<u>\$ 691,179</u>	2.8%

The City's investment in capital assets for its governmental activities as of June 30, 2005, amounts to \$710,548,000 (net of accumulated depreciation), compared to \$691,179,000 in the prior year. This investment in capital assets includes land and land improvements, buildings, equipment, vehicles, streets, curbs and gutters, and construction in progress.

In 2004/05, the City added \$27,085,000 in new capital assets, and disposed of \$3,680,000 in capital assets (\$1,285,000 in equipment, \$2,014,000 in vehicles, and \$381,000 in various other capital assets). The major additions consisted of the acquisition of land (\$14,996,000), primarily for the Centerville Train Station (\$3,217,000) and Washington Boulevard grade separation project (\$11 million), and ongoing construction costs on the City's new Maintenance Center (\$7 million) and the solid waste transfer station (\$2 million).

The City has adopted the modified approach for its roads and streets, which means that these capital assets are not required to be depreciated if certain conditions (as described in Item 2 of the Required Supplementary Information following the notes to the financial statements) are met. The City's policy is to achieve an average Pavement Condition Index (PCI) rating of 70 for all its roads and streets. This rating allows minor cracking and raveling of the pavement along with minor roughness that could be noticeable to drivers traveling at the posted speeds. At June 30, 2005, the City's roads and streets system was rated at an average PCI index of 71, down from the average PCI index of 74 in the prior year.

City of Fremont, California
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

The maintenance estimate for 2004/05 to maintain an average PCI rating of 71 was \$6,200,000. Actual expenditures for that period were \$385,000. The difference between the estimate and actual expenditures is attributable to the fact that maintenance estimates are projected over a number of years and then divided by that number of years to calculate an average. In reality, the actual expenditure of money varies from year to year, depending on the nature of the work to be done and the size and number of contracts awarded for that work. However, with the decline in the PCI index (from 74 to 71) and the City's current economic conditions, finding sufficient resources to fund street maintenance will continue to be challenging for the foreseeable future.

Additional information about the City's capital assets can be found in Note 1.G and Note 4, following the basic financial statements.

Long-term Debt

At the end of 2004/05, the City had \$232,375,000 in bonds and notes outstanding. Of this amount, \$58,930,000 is tax increment notes issued by the Redevelopment Agency, \$138,625,000 are certificates of participation and \$34,820,000 is general obligation bonds. Following is a schedule of outstanding debt:

SUMMARY OF LONG-TERM DEBT
JUNE 30, 2005
(dollars in thousands)

	<u>Balance</u> <u>July 1, 2004</u>	<u>Incurred</u> <u>or Issued</u>	<u>Satisfied or</u> <u>Matured</u>	<u>Balance</u> <u>June 30, 2005</u>
Redevelopment Agency Tax				
Allocation Bonds:				
Series 2000	\$ 3,035	\$ -	\$ 3,035	\$ -
Series 2003	18,045	-	-	18,045
Series 2004	41,425	-	540	40,885
General Obligation Bonds:				
Fire Safety Bonds 2003	10,000	-	180	9,820
Fire Safety Bonds 2004	-	25,000	-	25,000
Certificates of Participation (COPs):				
1990 Public Financing Authority	5,200	-	300	4,900
1991 Public Financing Authority	4,000	-	100	3,900
1998 Public Financing Authority	11,570	-	235	11,335
1998 Public Financing Authority	18,110	-	515	17,595
2001 Public Financing Authority	34,220	-	675	33,545
2001B Public Financing Authority	9,750	-	320	9,430
2002 Public Financing Authority	36,820	-	830	35,990
2003 Public Financing Authority	<u>21,930</u>	<u>-</u>	<u>-</u>	<u>21,930</u>
Total	<u>\$ 214,105</u>	<u>\$ 25,000</u>	<u>\$ 6,730</u>	<u>\$ 232,375</u>

City of Fremont, California
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

During 2004/05, general obligation bonds were issued for \$25,000,000. This was the second issuance resulting from the \$51,000,000 Fire Safety Bond Measure (Measure R) approved by the voters in November 2002.

Of the outstanding debt, 48% is in fixed rate instruments (compared to 42% in the prior year), with an average interest rate of approximately 3.34% (compared to 3.36% in the prior year). The remaining 52% of the outstanding debt is in variable rate notes with an average interest rate of 1.85% as of June 30, 2005 (compared to 1.07% in the prior year). The average interest rate on all outstanding City debt is 2.56% at June 30, 2005 (compared to 2.53% for the prior year).

The City Council adopted a debt policy in February 1996 that limits debt obligations of the General Fund to 7% of budgeted expenditures and transfers out. As of July 1, 2005, debt obligations were approximately 5% of budgeted expenditures and transfers out, which is well within the policy limit.

As of June 30, 2005, the three largest outstanding debt obligations were as follows:

- \$40,885,000 in Redevelopment Agency tax allocation bonds. These bonds were issued in 2003/04, and the proceeds refunded a significant portion of the tax allocation bonds issued in 2000. The primary purpose of the 2000 tax allocation bonds was to refinance the freeway interchanges on Interstate 880 at Dixon Landing Road and Mission Boulevard/Warren Avenue, and a grade separation at Washington Boulevard. The purpose of the Washington Boulevard grade separation is to improve safety, relieve traffic congestion, and accommodate a Bay Area Rapid Transit (BART) extension to Warm Springs and eventually to San Jose.
- \$33,545,000 in capital COPs issued in 2001 to finance the following:
 - A police detention and property evidence storage facility
 - HVAC improvements to the existing police building
 - Retiring notes used to purchase land for a potential city hall site
 - Acquisition of and improvements to new city offices at 3300 Capitol Avenue
 - Acquisition of a site to be used for future construction of the City's Fire Station 11 in the southern Industrial Area. Construction was to be funded with a separate COP issue, but has been deferred due to the City's current budget challenges and related reductions in operating expenditures.
- \$35,990,000 in capital COPs issued in 2002 to finance construction of the new Maintenance Center, to refinance the 1997 COPs issued to acquire the land for the new Maintenance Center, pay for seismic retrofit costs at the Development Services Center, and to fund certain development costs of the proposed Northgate Senior and Community Center (which has also been deferred due to the City's current budget challenges and related reductions in operating expenditures).

**City of Fremont, California
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005**

All of the issues summarized above are backed by either a stand-by letter of credit or bond insurance. All of the debt issues backed by a letter of credit have an A+ rating from Standard & Poor's. All of the debt issues backed by bond insurance are rated AAA by Standard & Poor's.

In November 2002, Fremont voters approved Measure R by 74.4%, thereby authorizing the City to issue \$51 million in general obligation bonds, to be repaid by a property tax levy. Proceeds from these bonds will be used to replace three fire stations, build a public safety training center, and make remodeling and seismic improvements to seven existing fire stations. The first issue of these bonds, in the amount of \$10 million, was sold in July 2003. The second issue of these bonds, in the amount of \$25 million, was sold in April 2005. These general obligation bonds were rated AA- by Standard & Poor's.

Additional information about the City's long-term debt can be found in Note 5, following the basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Fremont's economy is part of the Silicon Valley. Between the end of calendar year 2000 and calendar year 2002, the City saw its sales tax drop by 21%. Neighboring Santa Clara County and its cities saw a drop of 27%. This contrasts with Southern California's Inland Empire, where Riverside County saw an increase of 14% in sales tax in the same period. This severe downturn in Silicon Valley resulted in the loss of 200,000 jobs. The Silicon Valley Manufacturer's Group, in its annual forecast for 2004, has predicted that employment will not return to 2000 levels until 2010. Although the decline in Fremont's sales tax dollars continued through 2004/05, the rate of decline has slowed, and stronger economic performance may be possible in 2005/06.

Locally, the City faces two major challenges. First, the economic downturn continues to have a heavy impact on business-related revenues. The City's dependence on non-retail sales tax and other business-related revenues grew over the past several years, leaving the City's budget vulnerable to a business-led economic downturn like the dot-com collapse. This hurts the City's ability to provide basic services. Particularly troubling is the fact that the City and other local governments in the region now face increased demand for emergency preparedness and support of homeland defense measures. Although the City received some stable economic news at the end of 2004/05, management remains cautious about the reports of economic recovery and anticipates any recovery to be moderate.

The second challenge is related to the State's severe budget problems. Seventy-five percent of the City's general revenue and 74% of its General Fund revenue are comprised of property, sales and vehicle tax allocations controlled by the State Legislature. Fremont's financial future is directly linked to the fiscal health of the State government.

Fremont is fortunate to have a diverse business community and a strong real estate market. The 2005/06 budget assumptions acknowledge the uncertainty in the economy and the State budget, and the budget includes contingency reserves to help us deal with the risk.

City of Fremont, California
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

In response to the unprecedented uncertainty the City faces, the City's focus will be on preserving basic services and sustaining maintenance of infrastructure and public facilities. The prudent budgeting and reserve policies developed since the last recession have enabled the City to manage through this economic downturn. However, despite seeing the first signs of economic recovery in three years at the end of 2003/04, the City continues to face resource shortfalls in future budgets. Aggressive cost management, retail development, and fee increases have helped with the resource problem, but new resources will be needed to continue current service levels and restore essential public safety and maintenance services. Prudent use of fund balance and reserves will cushion the impact of reduced revenues and mitigate the effects on departmental budgets and services.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Fremont's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City's Finance Director, Harriet V. Commons, at 3300 Capital Avenue, P. O. Box 5006, Fremont, California 94537-5006.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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City of Fremont
Statement of Net Assets
June 30, 2005

(With comparative totals for June 30, 2004)

	Governmental Activities	
	2005	2004
ASSETS		
Current assets:		
Cash and investments held by City	\$ 299,763,890	\$ 277,500,606
Restricted cash and investments held by fiscal agent	18,178,474	26,516,741
Receivables:		
Allocated property tax	680,218	1,212,611
Allocated sales tax	3,894,577	5,711,966
Due from other governmental agencies	3,299,677	6,185,894
Accrued interest	7,990,791	6,669,112
Other	2,778,791	2,825,582
Total receivables	18,644,054	22,605,165
Total current assets	336,586,418	326,622,512
Noncurrent assets:		
Housing rehabilitation loans receivable, net	1,839,761	1,147,254
Condemnation deposits	1,254,791	7,438,965
Deferred charges	1,648,253	1,446,488
Land for sale	2,821,430	2,821,430
Capital assets:		
Nondepreciable assets	601,022,387	611,448,949
Depreciable assets, net	109,525,345	79,729,734
Total capital assets, net	710,547,732	691,178,683
Total noncurrent assets	718,111,967	704,032,820
Total assets	1,054,698,385	1,030,655,332
LIABILITIES		
Current liabilities:		
Accounts payable	4,310,980	7,370,052
Tax and revenue anticipation notes payable	15,261,771	15,261,771
Salaries and wages payable	7,605,944	5,676,024
Claims payable	3,861,426	2,851,483
Due to other governmental agencies	8,505,922	7,604,438
Interest payable	1,701,819	1,877,920
Loans payable and other liabilities	1,500,000	1,500,000
Long-term debt - due within one year	9,675,000	6,730,000
Total current liabilities	52,422,862	48,871,688
Noncurrent liabilities:		
Unearned revenue	4,688,233	13,696,456
Compensated absences	7,118,018	7,254,835
Claims payable	5,443,574	5,394,517
Long-term debt - due in more than one year	223,381,654	207,737,223
Total noncurrent liabilities	240,631,479	234,083,031
Total liabilities	293,054,341	282,954,719
NET ASSETS		
Invested in capital assets, net of related debt	477,491,078	476,711,460
Restricted for:		
Capital projects and capital asset maintenance	131,397,602	123,420,225
Debt service	60,995,086	47,879,351
Community development	28,301,701	38,776,970
Specific projects and programs	12,771,388	13,202,602
Total restricted	233,465,777	223,279,148
Unrestricted	50,687,189	47,710,005
Total net assets	\$ 761,644,044	\$ 747,700,613

See accompanying Notes to Basic Financial Statements.

City of Fremont

Statement of Activities and Changes in Net Assets

For the year ended June 30, 2005

(With comparative totals for the year ended June 30, 2004)

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government	\$ 10,927,465	\$ 711,360	\$ -	\$ -	\$ 711,360
Police services	45,097,014	4,227,141	1,096,309	-	5,323,450
Fire services	26,157,733	2,450,562	595,401	-	3,045,963
Human services	6,006,485	1,292,815	1,917,873	-	3,210,688
Capital assets maintenance and operations	33,952,582	1,562,861	7,732,807	491,304	9,786,972
Recreation and leisure services	4,906,353	3,474,316	-	-	3,474,316
Community development and environmental services	34,569,156	14,626,076	2,358,665	-	16,984,741
Intergovernmental	9,761,863	-	-	-	-
Interest on debt	6,939,093	-	-	-	-
Total	\$ 178,317,744	\$ 28,345,131	\$ 13,701,055	\$ 491,304	\$ 42,537,490

General revenues:

Intergovernmental:

Allocated property tax

Allocated sales tax

Motor vehicle in lieu

Revenue loss mitigation

Other

Total intergovernmental

Business taxes

Other taxes

Development impact fees

Franchise fees

Investment earnings

Miscellaneous

Total general revenues

Change in net assets

Net assets - beginning of year

Prior period adjustment

Net assets - end of year

See accompanying Notes to Basic Financial Statements.

Net (Expense) Revenue and Changes in Net Assets	
Governmental Activities	
2005	2004

\$ (10,216,105)	\$ (9,999,478)
(39,773,564)	(34,936,970)
(23,111,770)	(20,733,632)
(2,795,797)	(2,304,288)
(24,165,610)	(18,508,833)
(1,432,037)	(1,813,963)
(17,584,415)	(16,664,010)
(9,761,863)	(8,940,670)
(6,939,093)	(7,754,841)
\$ (135,780,254)	\$ (121,656,685)

61,790,662	63,385,957
30,619,014	26,796,489
4,623,173	3,813,050
11,157,253	5,728,458
456,806	470,113
108,646,908	100,194,067
6,092,081	5,323,827
3,802,272	3,380,411
8,867,917	6,987,670
7,383,149	7,003,922
7,304,154	3,438,906
2,461,066	1,856,069
144,557,547	128,184,872
8,777,293	6,528,187
747,700,613	741,172,426
5,166,138	-
\$ 761,644,044	\$ 747,700,613

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GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

City of Fremont

Balance Sheet

Governmental Funds

June 30, 2005

(With comparative totals for June 30, 2004)

	Major Funds			
	General Fund	Redevelopment Agency	Development Impact Fees	State Gas Tax
ASSETS				
Cash and investments held by City	\$ 50,497,585	\$ 97,288,689	\$ 45,547,919	\$ 7,632,739
Restricted cash and investments held by fiscal agent	-	9,246,240	-	-
Receivables:				
Allocated property tax	680,218	-	-	-
Allocated sales tax	3,894,577	-	-	-
Due from other governmental agencies	660,898	-	-	343,681
Housing loans receivable, net	-	663,953	-	-
Accrued interest	1,874,177	5,482,828	-	-
Other	1,422,505	-	-	64,295
Condemnation deposits	-	-	-	-
Due from other funds	1,072,318	-	-	-
Total assets	\$ 61,678,278	\$ 112,681,710	\$ 45,547,919	\$ 8,040,715
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 611,469	\$ 1,105,202	\$ 73,413	\$ 170,452
Tax and revenue anticipation notes payable	15,261,771	-	-	-
Salaries and wages payable	5,739,575	86,692	-	-
Due to other funds	-	-	-	-
Due to other governmental agencies	1,060,698	7,445,224	-	-
Loans payable and other liabilities	-	1,500,000	-	-
Deferred revenue	686,645	5,760,323	-	-
Total liabilities	24,936,158	15,897,441	73,413	170,452
Fund Balances:				
Reserved for:				
Encumbrances	379,089	20,314,713	633,137	170,691
Debt service	-	56,741,107	-	-
Unreserved, reported in:				
General fund	36,363,031	-	-	-
Special revenue funds	-	19,728,449	-	7,699,572
Capital projects funds	-	-	44,841,369	-
Total fund balances	36,742,120	96,784,269	45,474,506	7,870,263
Total liabilities and fund balances	\$ 61,678,278	\$ 112,681,710	\$ 45,547,919	\$ 8,040,715

See accompanying Notes to Basic Financial Statements.

						Total	
Major Funds					Governmental Funds		
Integrated Waste Management	Development Cost Center	Recreation Services	Capital Maintenance	Non-major Funds	2005	2004	
\$ 8,395,689	\$ 5,248,331	\$ 7,974,344	\$ 4,266,807	\$ 66,444,069	\$ 293,296,172	\$ 273,715,331	
-	-	7,438	-	8,924,796	18,178,474	26,516,741	
-	-	-	-	-	680,218	1,212,611	
-	-	-	-	-	3,894,577	5,711,966	
-	-	-	-	2,295,098	3,299,677	6,185,894	
-	-	-	-	1,175,808	1,839,761	1,147,254	
-	-	-	-	633,786	7,990,791	6,669,112	
471,422	357,011	14,902	64,053	192,778	2,586,966	2,640,067	
-	-	-	-	-	-	2,988,300	
-	-	-	-	-	1,072,318	2,987,150	
<u>\$ 8,867,111</u>	<u>\$ 5,605,342</u>	<u>\$ 7,996,684</u>	<u>\$ 4,330,860</u>	<u>\$ 79,666,335</u>	<u>\$ 332,838,954</u>	<u>\$ 329,774,426</u>	
\$ 151,843	\$ 111,488	\$ 37,586	\$ 840,653	\$ 1,131,853	\$ 4,233,959	\$ 7,136,884	
-	-	-	-	-	15,261,771	15,261,771	
42,979	702,903	218,236	555,299	86,247	7,431,931	5,560,180	
-	-	-	-	1,072,318	1,072,318	2,987,150	
-	-	-	-	-	8,505,922	7,604,438	
-	-	-	-	-	1,500,000	1,500,000	
-	1,875,457	653,543	-	1,670,749	10,646,717	13,696,454	
<u>194,822</u>	<u>2,689,848</u>	<u>909,365</u>	<u>1,395,952</u>	<u>3,961,167</u>	<u>48,652,618</u>	<u>53,746,877</u>	
151,282	276,284	-	504,556	11,596,224	34,025,976	34,763,353	
-	-	-	-	5,955,798	62,696,905	49,757,270	
-	-	-	-	-	36,363,031	36,385,524	
8,521,007	2,639,210	7,087,319	-	10,098,020	55,773,577	69,459,148	
-	-	-	2,430,352	48,055,126	95,326,847	85,662,254	
<u>8,672,289</u>	<u>2,915,494</u>	<u>7,087,319</u>	<u>2,934,908</u>	<u>75,705,168</u>	<u>284,186,336</u>	<u>276,027,549</u>	
<u>\$ 8,867,111</u>	<u>\$ 5,605,342</u>	<u>\$ 7,996,684</u>	<u>\$ 4,330,860</u>	<u>\$ 79,666,335</u>	<u>\$ 332,838,954</u>	<u>\$ 329,774,426</u>	

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City of Fremont
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2005
(With comparative totals for June 30, 2004)

	2005	2004
Total Fund Balances - Total Governmental Funds	\$ 284,186,336	\$ 276,027,549
Amounts reported for Governmental Activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the Governmental Funds Balance Sheet.	706,782,158	686,655,437
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in the Governmental Funds Balance Sheet.	(1,701,819)	(1,877,920)
Deferred charges on bonds not recorded in the governmental funds, which were previously recorded as expenditures and amortized over the terms of the bonds.	1,648,253	1,446,488
Condemnation deposits reported as noncurrent assets, while reported as capital outlay in Governmental Funds Statements of Revenues, Expenditures, and Changes in Fund Balances.	1,254,791	4,450,665
Internal service funds are used to charge the costs of insurance and information technology to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Government-Wide Statement of Net Assets.	3,690,513	2,720,452
Interest receivable is reported as unearned revenue in the Governmental Funds, but should be reflected as income in the Government-Wide Statement of Net Assets	5,958,484	-
Accruals for compensated absences are long term liabilities and are not due and payable in the current period and therefore they are not reported in the Governmental Funds Balance Sheet.	(7,118,018)	(7,254,835)
Long-term debts are not due and payable in the current period and therefore they are not reported in the Governmental Funds Balance Sheet.	(233,056,654)	(214,467,223)
Net Assets of Governmental Activities	\$ 761,644,044	\$ 747,700,613

See accompanying Notes to Basic Financial Statements.

City of Fremont

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the year ended June 30, 2005

(With comparative totals for the year ended June 30, 2004)

	Major Funds			
	General Fund	Redevelopment Agency	Development Impact Fees	State Gas Tax
REVENUES:				
Intergovernmental:				
Property tax	\$ 34,035,805	\$ 27,126,771	\$ -	\$ -
Sales tax	30,619,014	-	-	-
Motor vehicle in lieu	4,623,173	-	-	-
Revenue loss mitigation	11,157,253	-	-	-
Other	878,506	-	-	3,880,920
Business tax	6,092,081	-	-	-
Other taxes	3,802,272	-	-	-
Impact fees	-	-	8,867,917	-
Franchise fees	7,546,775	-	-	-
Charges for services	7,611,792	-	-	-
Investment earnings	1,893,133	2,527,651	1,016,533	174,544
Other	181,654	991,087	4,915	-
Total revenues	108,441,458	30,645,509	9,889,365	4,055,464
EXPENDITURES:				
Current:				
General government	10,757,407	-	-	-
Police services	42,637,268	-	-	-
Fire services	24,876,078	-	-	-
Human services	2,610,663	-	-	-
Capital assets maintenance and operations	-	-	5,010,342	2,299,137
Recreation and leisure services	-	-	-	-
Community development and environmental services	575,596	19,110,438	-	-
Intergovernmental	-	9,761,863	-	-
Capital outlay	68,746	8,483,261	887,749	-
Debt service:				
Principal	-	3,575,000	-	-
Interest and fiscal charges	603,950	2,674,180	-	-
Total expenditures	82,129,708	43,604,742	5,898,091	2,299,137
REVENUES OVER (UNDER) EXPENDITURES	26,311,750	(12,959,233)	3,991,274	1,756,327
OTHER FINANCING SOURCES (USES):				
Debt proceeds	-	-	-	-
Premium on debt issuance	-	-	-	-
Transfers in	6,590,582	9,008	-	-
Transfers out	(33,109,105)	(341,053)	(1,792,182)	(1,150,000)
Payment to escrow agent	-	-	-	-
Total other financing sources (uses)	(26,518,523)	(332,045)	(1,792,182)	(1,150,000)
Net change in fund balances	(206,773)	(13,291,278)	2,199,092	606,327
FUND BALANCES:				
Beginning of year	36,948,893	110,075,547	43,275,414	7,263,936
End of year	\$ 36,742,120	\$ 96,784,269	\$ 45,474,506	\$ 7,870,263

See accompanying Notes to Basic Financial Statements.

Major Funds					Total Governmental Funds	
Integrated Waste Management	Development Cost Center	Recreation Services	Capital Maintenance	Non-major Funds	2005	2004
\$ -	\$ -	\$ -	\$ -	\$ 628,086	\$ 61,790,662	\$ 63,385,957
-	-	-	-	-	30,619,014	26,796,489
-	-	-	-	-	4,623,173	3,813,050
-	-	-	-	-	11,157,253	5,728,458
148,289	-	-	-	9,250,146	14,157,861	20,985,273
-	-	-	-	-	6,092,081	5,323,827
-	-	-	-	-	3,802,272	3,380,411
-	-	-	-	-	8,867,917	6,987,670
-	-	-	-	-	7,546,775	7,003,922
5,197,892	8,472,035	3,474,316	145,020	2,488,104	27,389,159	24,768,526
-	116,916	171,033	-	1,329,667	7,229,477	3,403,310
-	-	24,660	-	1,192,391	2,394,707	1,779,007
5,346,181	8,588,951	3,670,009	145,020	14,888,394	185,670,351	173,355,900
-	-	-	-	-	10,757,407	10,270,078
-	-	-	-	1,168,439	43,805,707	37,935,944
-	-	-	-	327,765	25,203,843	23,050,940
-	-	-	-	3,336,977	5,947,640	5,480,620
-	-	-	18,270,180	3,536,184	29,115,843	31,838,420
-	-	4,825,523	-	-	4,825,523	5,201,139
1,706,733	9,270,040	-	-	3,666,474	34,329,281	29,818,864
-	-	-	-	-	9,761,863	8,940,670
211,929	-	-	109,295	13,554,049	23,315,029	32,971,268
-	-	-	-	3,155,000	6,730,000	6,455,000
-	-	-	-	4,082,313	7,360,443	8,176,015
1,918,662	9,270,040	4,825,523	18,379,475	32,827,201	201,152,579	200,138,958
3,427,519	(681,089)	(1,155,514)	(18,234,455)	(17,938,807)	(15,482,228)	(26,783,058)
-	-	-	-	25,000,000	25,000,000	73,355,000
-	-	-	-	362,917	362,917	-
32,184	2,400,457	2,444,434	21,997,252	13,721,009	47,194,926	39,401,737
(2,205,141)	(2,350,229)	(595,974)	(3,044,577)	(4,328,567)	(48,916,828)	(38,984,292)
-	-	-	-	-	-	(59,145,000)
(2,172,957)	50,228	1,848,460	18,952,675	34,755,359	23,641,015	14,627,445
1,254,562	(630,861)	692,946	718,220	16,816,552	8,158,787	(12,155,613)
7,417,727	3,546,355	6,394,373	2,216,688	58,888,616	276,027,549	288,183,162
\$ 8,672,289	\$ 2,915,494	\$ 7,087,319	\$ 2,934,908	\$ 75,705,168	\$ 284,186,336	\$ 276,027,549

City of Fremont

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets

For the year ended June 30, 2005

(With comparative totals for the year ended June 30, 2004)

	2005	2004
Net Change in Fund Balances - Total Governmental Funds	\$ 8,158,787	\$ (12,155,613)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets additions recorded in the current period.	26,510,903	28,520,603
Condemnation deposit incurred reported as Noncurrent assets, while reported as capital outlay in Governmental Funds Statements of Revenues, Expenditures, and Changes in Fund Balances.	(3,195,874)	4,450,665
Contributions of infrastructure assets from developers not reported as revenue in governmental funds.	475,888	741,323
Adjustment for disposal of Fixed Assets	(790,303)	-
Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it does not require the use of current financial resources. Therefore, depreciation is not reported as an expenditure in governmental funds.	(5,973,008)	(4,879,889)
Losses on the disposal of capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but do not require the use of current financial resources. Therefore, it is not reported as an expenditure in governmental funds.	(96,757)	(238,430)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Government-Wide Statement of Net Assets. Repayment of bond principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Government-Wide Statement of Net Assets.		
Bond proceeds	(25,000,000)	(73,355,000)
Long-term debt repayments	6,730,000	65,600,000
The net change in interest payable on long-term debt is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it does not require the use of current financial resources.	176,099	(663,091)
Unamortized long term discount/premium is accrued in Government-Wide Statement of Activities and Changes in Net Assets, but it does not require the use of current financial resources. Therefore, unamortized long term discount/premium is not reported as an expenditure in governmental funds.	(319,431)	(362,223)
Prepaid bond issuance cost is deferred in Government-Wide Statement of Activities and Changes in Net Assets, but it does require the use of current financial resources. Therefore, bond issuance cost is reported as an expenditure in governmental funds.	201,765	1,446,488
Internal service funds are used to charge the costs of insurance and information technology, to individual funds. The net revenue of the internal service funds is reported with governmental activities.	970,061	(3,115,341)
Interest receivable is reported in the Government-Wide Statement of Activities and Changes in Net Assets under full accrual but is recorded as deferred revenue under modified accrual for the Governmental Funds.	792,346	-
Changes in long term compensated absences in governmental activities are not reported in governmental funds	136,817	538,695
Change in Net Assets of Governmental Activities	\$ 8,777,293	\$ 6,528,187

PROPRIETARY FUND FINANCIAL STATEMENTS

City of Fremont

Statement of Net Assets

Proprietary Fund

June 30, 2005

(With comparative totals for June 30, 2004)

	Internal Service	
	2005	2004
ASSETS		
Cash and investments held by City	\$ 6,467,718	\$ 3,785,275
Receivables:		
Other	191,825	185,515
Depreciable assets	6,868,210	8,334,620
Less accumulated depreciation	(3,102,636)	(3,811,374)
Land held for resale	2,821,430	2,821,430
Total assets	13,246,547	11,315,466
LIABILITIES		
Accounts payable	77,021	233,168
Salaries and wages payable	174,013	115,844
Claims payable	9,305,000	8,246,000
Other accrued liabilities	-	2
Total liabilities	9,556,034	8,595,014
NET ASSETS		
Invested in capital assets	3,765,574	4,523,246
Unrestricted	(75,061)	(1,802,794)
Total net assets	\$ 3,690,513	\$ 2,720,452

See accompanying Notes to Basic Financial Statements.

City of Fremont

Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Fund

For the year ended June 30, 2005

(With comparative totals for the year ended June 30, 2004)

	Internal Service	
	2005	2004
OPERATING REVENUES:		
Charges for services	\$ 9,925,915	\$ 7,926,288
Other	66,359	77,062
Total operating revenues	9,992,274	8,003,350
OPERATING EXPENSES:		
Salaries and wages	2,430,741	2,376,717
Insurance premiums	973,957	709,484
Provision for claim losses	4,775,050	6,474,337
Claims administration	277,908	262,678
Materials and supplies	1,451,031	688,345
Depreciation	871,444	179,463
Other	54,077	45,816
Total operating expenses	10,834,208	10,736,840
OPERATING INCOME (LOSS)	(841,934)	(2,733,490)
NONOPERATING REVENUES (EXPENSES):		
Investment income	74,677	35,595
Total nonoperating revenues (expenses)	74,677	35,595
Contributed capital assets	15,416	-
Transfers in	2,205,427	34,221
Transfers out	(483,525)	(451,667)
INCREASE (DECREASE) IN NET ASSETS	970,061	(3,115,341)
NET ASSETS:		
Beginning of year	2,720,452	5,835,793
End of year	\$ 3,690,513	\$ 2,720,452

See accompanying Notes to Basic Financial Statements.

City of Fremont
Statement of Cash Flows
Proprietary Fund
For the year ended June 30, 2005
(With comparative totals for the year ended June 30, 2004)

	Internal Service	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from users	\$ 9,919,605	\$ 7,970,876
Other revenue	66,359	88,241
Less: Payments to suppliers	(2,859,043)	(1,624,988)
Payments for employees services	(2,372,572)	(2,394,333)
Payments for claims paid	(3,716,050)	(3,964,901)
Payments to others	(54,079)	(39,699)
Net cash provided (used) by operating activities	984,220	35,196
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on cash and investments	74,677	35,595
Net cash provided by investing activities	74,677	35,595
CASH FLOWS FROM CAPITAL ACTIVITIES:		
Acquisition of capital assets	(98,356)	(480,719)
Net cash provided (used) by capital activities	(98,356)	(480,719)
CASH FLOWS FROM NONCAPITAL ACTIVITIES:		
Transfers in	2,205,427	34,221
Transfers out	(483,525)	(451,667)
Net cash provided (used) by noncapital activities	1,721,902	(417,446)
Net increase (decrease) in cash and cash investments	2,682,443	(827,374)
CASH AND INVESTMENTS:		
Beginning of year	3,785,275	4,612,649
End of year	<u>\$ 6,467,718</u>	<u>\$ 3,785,275</u>
RECONCILIATION OF OPERATING INCOME TO NET		
CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (841,934)	\$ (2,733,490)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation	871,444	179,463
Changes in assets and liabilities:		
Accounts receivable	(6,310)	44,588
Accounts payable	(156,147)	41,688
Salaries and wages payable	57,779	(5,502)
Compensated absences	390	(935)
Claims payable	1,059,000	2,509,436
Other accrued liabilities	(2)	(52)
Net cash provided (used) by operating activities	\$ 984,220	\$ 35,196

See accompanying Notes to Basic Financial Statements.

FIDUCIARY FUND FINANCIAL STATEMENTS

City of Fremont
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005
(With comparative totals for June 30, 2004)

	Total	
	2005	2004
<u>All Agency Funds</u>		
Assets:		
Cash and investments held by City	\$ 12,167,927	\$ 14,512,783
Restricted cash and investments held by City	2,040,060	-
Restricted cash and investments held by fiscal agent	22,120,134	25,482,346
Interest receivable	37,065	-
Accounts receivable	29,172	-
Other receivables	61,350	89,105
Total assets	\$ 36,455,708	\$ 40,084,234
Liabilities:		
Accounts payable	\$ 44,423	\$ 35,604
Deposits	36,411,285	40,048,630
Total liabilities	\$ 36,455,708	\$ 40,084,234

See accompanying Notes to Basic Financial Statements.

City of Fremont
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For the year ended June 30, 2005

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City of Fremont
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For the year ended June 30, 2005

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City of Fremont
Notes to Basic Financial Statements
For the year ended June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Fremont, California (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental entities. The Governmental Accounting Standards Boards (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

Governmental Activities

The City reports the following governmental activities:

General Government – These services are those that are associated with the general administration of the government. These services are primarily provided by the following offices/departments: City Council, City Manager, City Attorney, City Clerk, Finance, and Human Resources. These offices provide services that support external as well other internal government functions of the City.

Police Services – The Police Department is responsible for the safeguarding of citizens' lives and property, the preservation of constitutional rights, and neighborhood problem solving. These services also include the animal shelter and jail bookings.

Fire Services – The Fire Department is responsible for providing fire and life safety emergency services in Fremont. Services include emergency response, paramedic services, public education, emergency-preparedness training and hazardous materials management services.

Human Services – The Human Services Department offers a range of services to the community, including a senior center, paratransit services, counseling, and support for seniors, families and youth.

Capital Asset Maintenance and Operations – These services include maintenance of the City's capital assets and infrastructure, such as public buildings, parks, streets and vehicles.

Recreation and Leisure Services – Services provided by the Parks and Recreation Department include both performing and visual arts, youth and adult sports, youth and early childhood enrichment programs, park visitor services, and management of the community centers, special facilities, and historic sites.

Community Development and Environmental Services – These services are provided by the Development and Environmental Services Department and include community planning, engineering, code enforcement, building permit and inspection services, and environmental services that enhance and preserve a high quality living environment within the City.

Intergovernmental – These expenditures represent payments to other governmental agencies made by the Redevelopment Agency in accordance with pass-through fiscal agreements with those local taxing authorities.

City of Fremont
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

A. Financial Reporting Entity

The City was incorporated in January 1956. The City has a council-manager form of government and provides a wide range of municipal services. As required by generally accepted accounting principles in the United States, these basic financial statements present the City and its component units.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the primary government's exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The following is a brief overview of the component units included in the accompanying basic financial statements of the City. Financial information for these component units can be obtained from the City's Finance Department.

Redevelopment Agency of the City of Fremont (Agency) – A separate governmental entity established for the purpose of redeveloping certain areas of the City through development of industrial parks, commercial areas, and new residential housing. Funds for redevelopment projects are provided from various sources, including incremental property tax revenues, tax allocation bonds and advances from the City. Separate financial statements for the Agency are available from the City's Finance Department.

Fremont Public Financing Authority (Financing Authority) – A joint powers authority formed by the City and the Agency, organized for the purpose of financing certain capital projects for the City or the Agency. Separate financial statements are not issued for the Financing Authority.

Fremont Social Services JPA (Social Services JPA) – A joint powers authority formed by the City and the Agency, organized for the purpose of facilitating the activities of the Family Resource Center. In 1998, the Social Services JPA entered into a 40-year lease with the City for the two buildings that house the Family Resource Center. The Social Services JPA has committed to subleasing this space to CDBG-eligible tenants at below-market rents over the 40-year lease term. Rents collected from CDBG-eligible tenants are used to make payments on the debt service obligations incurred in connection with the purchase of the buildings. Separate financial statements are not issued for the Social Services JPA.

The City Council serves in separate session as the governing body of the Agency, the Financing Authority, and the Social Services JPA. As a result, the financial activities of these entities are integrally related to those of the City and are "blended" with those of the City.

Other governmental agencies that provide services within the City include the following:

- Fremont-Newark Community College District
- Fremont Unified School District
- Alameda County Flood Control & Water Conservation District
- Union Sanitary District
- Alameda County Water District

City of Fremont
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

A. Financial Reporting Entity, Continued

- East Bay Regional Park District
- Washington Township Hospital District and related organizations
- Alameda-Contra Costa Transit District
- Bay Area Rapid Transit District
- State of California
- County of Alameda

Financial information for the organizations listed above is not included in the accompanying basic financial statements because they have independently elected governing boards, their operations are separate from those of the City, and they are not financially dependent on the City.

B. Basis of Accounting and Measurement Focus

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government – Wide Financial Statements

The City's government-wide financial statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of governmental activities for the City. Fiduciary activities of the City are not included in these statements.

These statements are presented on an economic resources measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the City are reported in three categories: (1) charges for services, (2) operating grants and contributions, and (3) capital grants and contributions.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal service fund balances in the Statement of Net Assets have been eliminated.

The City applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect), as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure.

City of Fremont
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

The City applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and aggregated non-major funds. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the government-wide financial statements. The City has presented all major funds that meet the criteria prescribed in GASB Statement No. 34.

All governmental funds are accounted for on a spending or current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

The City reports the following major governmental funds:

General Fund – This fund is the City’s primary operating fund. It accounts for all financial resources and outlays of the general government. The fund receives the City’s discretionary funding sources (e.g., property tax, sales tax, charges for services, etc.) and uses its resources for the general operations of the City (e.g., police, fire, general government) not accounted for in other funds.

Redevelopment Agency – This fund accounts for the activities of the Redevelopment Agency of the City. The fund receives incremental property taxes and disburses those proceeds for payment of principal and interest on the redevelopment tax increment bonds issued to finance improvements in the Irvington, Centerville, Niles and Industrial project areas. In addition, California Government Code Section 33487, pertaining to redevelopment agencies, requires the Agency to set aside 20% of its tax allocations for improving the community’s low and moderate income housing stock. These restricted allocations are accounted for in this fund.

Development Impact Fees – This fund accounts for impact fees levied under California Government Code Sections 66000 et seq., “Fees for Development Projects” (commonly referred to as AB1600) and Section 66477 (commonly referred to as the Quimby Act). The City assesses fees for fire, capital facilities, traffic, park dedication in lieu, and park facilities. These fees are used to defray all or a portion of the cost of additional public facilities needed to provide service to new development.

State Gas Tax – This fund accounts for monies apportioned to the City from State-collected gasoline taxes. The annual allocation may be spent for street maintenance or construction. Funds are apportioned by the State on the basis of population.

City of Fremont
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Integrated Waste Management – This fund accounts for monies received by the City to comply with the provisions of AB939 for the purpose of addressing recycling, household hazardous waste and solid waste management issues. These revenues may only be spent for integrated waste management and waste reduction programs.

Development Cost Center – This fund accounts for services related to planning, engineering and inspection of public and private development construction projects.

Recreation Services – This fund accounts for all recreation programs and services, including Central Park and activities of the community centers. Fees are generated from the various classes and programs offered to the public. All costs of these programs are funded from these fees and from resources provided by the general fund.

Capital Maintenance – This fund accounts for maintenance activities related to the City's capital assets, including parks, streets, buildings, fleet, and urban forestry. This fund is primarily supported by the general fund, and also receives contributions from State Gas Tax, and Integrated Waste Management, revenues.

Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally received within 90 days after year-end) are recognized when due. The primary revenue sources that have been treated as susceptible to accrual by the City are property tax, sales tax, special assessments, intergovernmental revenues, other taxes, interest revenue, rental revenue and certain charges for services. Fines, forfeitures and licenses and permits are not susceptible to accrual because they are usually not measurable until received in cash. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Deferred revenue arises when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenues also arise when the City receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures or when monies are received before the related services are performed. In subsequent periods, when both revenue recognition criteria are met or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

The reconciliations of the fund financial statements to the government-wide financial statements are provided to explain the differences between the integrated approach of GASB Statement No. 34 and the traditional approach of fund accounting.

City of Fremont
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Proprietary Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows for all proprietary funds.

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included in the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as nonoperating expenses.

The City reports the following proprietary fund:

Internal Service Funds - These funds account for the Risk Management and Information Technology services provided to other City departments on a cost reimbursement basis.

Internal service fund balances and activities have been combined with governmental activities in the government-wide financial statements.

Fiduciary Fund Financial Statements

Fiduciary fund financial statements consist of a Statement of Net Assets. The City's fiduciary fund represents agency funds, which are custodial in nature and do not involve measurement of results of operations. The agency funds use the accrual basis of accounting.

The City reports the following agency funds:

Local Improvement Districts - This fund accounts for the special assessment bonds issued by local improvement districts or community facility districts under various public improvement acts of the State of California and secured by liens against properties deemed to have been benefited by the improvements for which the bonds were issued. Property owners are assessed their proportionate share, and the City acts as an agent in collecting the assessments from the property owners, forwarding the collections to bondholders and initiating foreclosure proceedings when necessary.

Bonds, Deposits and Confiscated Assets - This fund accounts for bonds and deposits received in conjunction with construction activity within the City, assets confiscated by the police, and other deposits held by the City as a fiduciary.

City of Fremont
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Tri-City Waste Facility Financing Authority – This fund accounts for revenue bonds issued by the cities of Fremont, Newark and Union City for the closure of the Durham Road Landfill.

Tri-City Waste Disposal Authority – This fund provides for the administration of funds collected by the Tri-City Waste Disposal Authority, a joint powers authority (JPA), which exists to administer disposal agreements for the solid waste generated in the cities of Fremont, Newark, and Union City.

Southern Alameda County GIS – This fund accounts for monies collected from participating agencies for the administration of the Geographic Information System (GIS) through a JPA. The City is the administrator of the GIS, which serves the participating agencies. The parties to the JPA are the City of Fremont, City of Union City, City of Newark, Union Sanitary District, and Alameda County Water District.

C. Cash and Investments

The City pools cash resources from all funds in order to facilitate and maximize the management of cash. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other fixed income investments with varying terms.

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB No. 3)*, certain disclosure requirements for Deposits and Investment Risks were made in the following areas:

- Interest Rate Risk
- Credit Risk
 - Overall
 - Custodial Credit Risk
 - Concentration of Credit Risk

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid money market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available. Interest earned on investments is allocated to all funds on the basis of daily cash and investment balances.

The City participates in an investment pool managed by the State of California, the Local Agency Investment Fund (LAIF), which has invested a portion of the pool funds in structured notes and asset-backed securities. These structured notes and asset-backed securities are subject to market risk as to change in interest rates.

City of Fremont
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Cash and Investments, Continued

Cash and cash equivalents are considered to be cash on hand, amounts in demand deposits and short-term investments with original maturities of three months or less from the date acquired by the City.

D. Restricted Cash and Investments

Certain restricted cash and investments are held by a fiscal agent for the redemption of bonded debt and for acquisition and construction of certain capital projects.

E. Interfund Transactions

During the normal course of operations, the City has numerous transactions among funds. The significant interfund transactions that occurred during the year can be classified into two types:

Transfers – Transactions to allocate the occurrence of specific expenditures within the receiving fund. These transactions are recorded as transfers in and out in the year in which they are approved.

Loans Between Funds – Transactions to loan resources from one fund to another. The interfund loans will be paid back when permanent financing is obtained or definitive funding sources become available. Short-term loans are recorded as “due from other funds” in the disbursing fund and “due to other funds” in the receiving fund.

F. Capital Assets

Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair market value on the date donated. City policy has set the capitalization threshold for reporting infrastructure capital assets at \$25,000 and for all other capital assets at \$5,000. Depreciation is recorded on a straight-line basis over estimated useful lives of the assets, as follows:

Buildings	50 years
Building Improvements	20 years
Machinery and Equipment	5 - 25 years
Infrastructure	15 - 100 years
Vehicles	5 - 27 years

The City defines infrastructure as the basic physical assets that allow the City to function. These assets include the street system, park and recreation lands and improvements system, storm water collection system, and site amenities associated with buildings, such as parking and landscaped areas, used by the City in the conduct of its business.

City of Fremont
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

F. Capital Assets, Continued

The City uses the modified approach, as defined by GASB Statement No. 34, for infrastructure reporting of its streets, concrete and asphalt pavements. For all other infrastructure systems, the City uses the basic approach, as defined by GASB Statement No. 34.

The City commissioned an appraisal of City-owned infrastructure and property as of December 31, 2001, and has completed internal updates for June 30, 2004 and 2005. This appraisal determined the original cost, which is defined as the actual cost to acquire new property in accordance with market prices at the time of first construction/acquisition. Original costs were developed in one of three ways: (1) historical records; (2) standard unit costs appropriate for the construction/acquisition date; or (3) present cost indexed by a reciprocal factor of the price increase from the construction/acquisition date of the current date. The accumulated depreciation, defined as the total depreciation from the date of construction/acquisition to the current date on a straight-line cost method, was computed using industry accepted life expectancies for each infrastructure subsystem. The book value was then computed by deducting the accumulated depreciation from the original cost.

G. Claims Payable

The City records a liability to reflect an actuarial estimate of ultimate uninsured losses for both general liability claims (including property damage claims) and workers' compensation claims. The estimated liability for workers' compensation claims and general liability claims includes incurred but not reported (IBNR) claims. There is no fixed payment schedule to pay these liabilities.

H. Compensated Absences

In accordance with negotiated labor agreements, employees accumulate earned but unused vacation and other compensated leave, and sick pay benefits. There is no liability for unpaid accumulated sick leave because the City does not pay any amounts when employees separate from service with the City. All vacation and other compensated leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they are expected to be settled with current financial resources.

I. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental-type funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources, while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

City of Fremont
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

J. Net Assets and Fund Balances

Government-Wide Financial Statements

In the government-wide financial statements, net assets are reported in one of three categories:

Invested in Capital Assets, Net of Related Debt - This category consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Assets - External creditors, grantors, contributors, or laws or regulations of other governments restrict this amount.

Unrestricted Net Assets - This category consists of all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

Fund Financial Statements

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans for future use of financial resources and are subject to change.

Reservations of fund balances of governmental funds are created to either satisfy legal covenants, including state laws, that require a portion of the fund balance be segregated or identify the portion of the fund balance not available for future expenditures. Designated fund balances represent tentative plans for future use of financial resources. Fund reservations and designations used by the City include the following:

- **Reserved for Encumbrances** represents commitments for materials and services on purchase orders and contracts, which are unperformed.
- **Reserved for Debt Service** is provided to set aside funds legally restricted for the payment of principal and interest on long-term debt.
- **Designated for Budget Uncertainty** represents the amounts set up as a hedge against the primary sources of uncertainty in the City's budgets and long-range financial plans.
- **Designated for Program Investment** represents amounts provided for new programs or enterprises that have the potential for costs to be covered by future revenues. This designation is funded at 2.5% of budgeted General Fund expenditures and transfers out, in accordance with Council policy.
- **Designated for Catastrophic Contingencies** is provided to set aside funds to meet costs associated with catastrophes and disasters. This designation is funded at 12.5% of budgeted General Fund expenditures and transfers out, in accordance with Council policy.

City of Fremont
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

J. Net Assets and Fund Balances, Continued

Fund Financial Statements, Continued

- **Designated for Fair Value Adjustments** represents amounts provided for unrealized gains and losses as a result of changes in the fair market value of investments.
- **Designated for Future Appropriations** represents funds designated to cover future year expenditures.
- **Designated for Low and Moderate Income Housing Programs** represents tax increment revenues set aside for low and moderate-income housing projects.
- **Designated for Future Maintenance** represents funds designated for future maintenance on and/or replacement of fixed assets.
- **Designated for Vehicle Replacement** represents funds designated to cover the replacement cost associated with City-owned vehicles.
- **Designated for Capital Projects** represents funds set aside for new capital projects as determined by City Council.
- **Designated for Specific Purposes** represents funds designated for other specific purposes.

K. Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to apply restricted net assets first.

L. Allocated Property Tax

Under California law, property taxes are assessed and collected by the counties at a rate of up to 1% of assessed value, plus other increases approved by the voters. Property taxes go into a pool and are then allocated to cities based on complex formulas. Property taxes are collected by the Auditor-Controller of the County of Alameda (County) and are remitted upon collection to the various taxing entities, including the City and the Agency. Accordingly, the City and the Agency accrue only those taxes that are received from the County within sixty days after year-end.

For assessment and collection purposes, property is classified as either "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed property and real property having a tax lien that is sufficient, in the opinion of the assessor, to secure payment of the taxes. Unsecured property comprises all taxable property not attached to land, such as personal property or business property. Every tax levied by a county that becomes a lien on secured property has priority over all present and future private liens arising pursuant to State law on the secured property, regardless of the time of the creation of the other liens. A tax levied on

City of Fremont
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

L. Allocated Property Tax, Continued

unsecured property does not become a lien against the taxed unsecured property, but may become a lien on other property owned by the taxpayer.

Valuation of secured property and establishment of a statutory tax lien occur as of January 1 prior to the tax year (the tax year is the July 1 – June 30 fiscal year of the State) of the related tax levy, and the secured and unsecured tax rolls are certified on or before July 1 of the tax year by the County Assessor.

Lien Date (Secured)	January 1
Levy Date	January 1
Secured Taxes – Due Date	November 1 and February 1
Secured Taxes – Delinquency Date	December 10 and April 10
Unsecured Taxes – Due Date	July 1
Unsecured Taxes – Delinquency Date	August 31

Neither the City nor the Agency has the ability to control the levy rate or the amount of property taxes remitted by the County because State law controls them. Accordingly, these revenues are considered to be intergovernmental in nature.

M. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of revenues and expenses. Actual results could differ from these estimates and assumptions.

2. CASH AND INVESTMENTS

The City maintains an internal cash and investment pool for all funds. Certain restricted funds that are held and invested by independent outside custodians through contractual agreements are not pooled, and are reported as cash with fiscal agents.

Investment income earned on pooled cash and investments (including realized and unrealized gains and losses) is allocated monthly to the various funds based on average daily cash balances. Investment income from cash and investments with fiscal agents is credited directly to the related funds.

A. Authorized Investments

The City's investment policy is adopted annually by the City Council in accordance with California Government Code Section 53601, and has as its objectives the following (in order of priority):

City of Fremont
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

2. CASH AND INVESTMENTS, Continued

A. Authorized Investments, Continued

- **Safety:** Safety of principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in the portfolio's composition.
- **Liquidity:** The portfolio shall remain sufficiently liquid to meet all operating requirements that can be reasonably anticipated. Liquidity refers to the ability to sell an investment at any given moment with a minimal chance of losing some portion of principal or interest.
- **Yield:** The portfolio shall be designed to attain a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

Under provisions of the City's investment policy, the City may invest in the following types of investments:

- Bonds and notes issued by the City.
- U.S. Treasury bills, notes, bonds, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.
- Registered state warrants or treasury notes or bonds issued by the State of California.
- Bonds, notes, warrants, or other evidence of debt issued by a local agency within the State of California with the highest credit rating (on the date of purchase) by two nationally recognized rating services.
- The Local Agency Investment Fund (LAIF) maintained by the State of California.
- Obligations issued by agencies or instrumentalities of the U.S. Government.
- Bankers' acceptances with a term not to exceed 180 days.
- Prime commercial paper with a term not to exceed 270 days and the highest rating issued by Moody's Investors Service or Standard & Poor's Corporation, on the date of purchase.
- Negotiable certificates of deposit issued by federally chartered or state-chartered banks or associations or by a state-licensed branch of a foreign bank.
- Repurchase agreements that comply with statutory requirements, are documented by a written agreement, are fully collateralized by delivery to an independent third-party custodian or the counter party's bank's trust department or safekeeping department, and are for a term of one year or less.
- Medium-term notes with a maximum maturity of five years issued by corporations organized and operating in the United States.
- Shares of beneficial interest issued by diversified management companies investing in authorized securities and obligations (e.g., money market mutual funds).
- Insured or collateralized time deposits or savings accounts secured in accordance with the provisions of Sections 53651 and 53652 of the California Government Code.

City of Fremont
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

3. CASH AND INVESTMENTS, Continued

A. Authorized Investments, Continued

- Any pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond with a maximum maturity of five years.
- Other investments that are permitted by bond indenture agreements.
- Guaranteed investment agreements for funds that can be invested longer than five years with final maturity not to exceed ten years.

A five-year maximum maturity for each investment is allowed unless an extension of maturity is granted by the City Council.

In accordance with Section 53651 of the California Government Code, the City cannot invest in inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages, or in any security that could result in zero interest accrual if held to maturity. The limitation does not apply to investments in shares of beneficial interest issued under the Investment Company Act of 1940 that are authorized investments under Section 53601 of the California Government Code.

B. Deposits

At June 30, 2005, the carrying amount of the City's time and demand deposits was \$1,591,991. The difference between the bank balance of \$4,012,319 and the carrying amount resulted from outstanding checks and deposits in transit. Of the time deposits and demand deposits, \$500,000 was covered by federal depository insurance and \$3,512,319 was collateralized with securities held by the counter party or its agent in accordance with Section 53652 of the California Government Code. The California Government Code requires California banks and savings and loan associations to secure a City's deposits by pledging government securities with a value of 110% of a City's deposits, or by pledging first trust deed mortgage notes having a value of 150% of City's total deposits.

City of Fremont
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

2. CASH AND INVESTMENTS, Continued

C. Risk Disclosures

The following is a summary of pooled cash and investments, including cash and investments with fiscal agent at June 30, 2005.

	Government-Wide Statement of Net Assets Governmental Activities	Fiduciary Funds Statement of Net Assets	Totals
Cash and investments	\$ 299,763,890	\$ 12,167,927	\$ 311,931,817
Restricted cash and investments held by city	-	2,040,060	\$ 2,040,060
Restricted cash and investments held by fiscal agent	18,178,474	22,120,134	40,298,608
Totals	\$ 317,942,364	\$ 36,328,121	\$ 354,270,485

Restricted cash and investments held by fiscal agent in the Financing Authority Debt Service Fund are restricted for the payment of principal and interest on certificates of participation and revenue bonds. In the fiduciary funds, restricted cash and investments relate to special assessment bonds and bonds issued by the Tri-City Waste Facility Financing Authority.

As of June 30, 2005, the City had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in years)				
		1 year or less	1-2 years	2-3 years	3-4 years	4-5 years
U.S. Agencies	\$ 41,085,048	\$ 36,063,198	\$ 2,981,790	\$ 2,040,060	\$ -	\$ -
U.S. Treasuries	161,539,755	78,383,076	40,935,256	18,561,042	22,660,068	1,000,313
Domestic Banker's Acceptance	11,963,350	11,963,350	-	-	-	-
Commercial Paper	16,703,263	16,703,263	-	-	-	-
Medium Term Notes	32,145,082	4,981,908	9,809,342	11,435,022	3,918,670	2,000,140
Pooled Accounts	46,935,379	46,935,379	-	-	-	-
Time Deposits	3,600,000	3,600,000	-	-	-	-
Total	\$ 313,971,877	\$ 198,630,174	\$ 53,726,388	\$ 32,036,124	\$ 26,578,738	\$ 3,000,453

City of Fremont
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

2. CASH AND INVESTMENTS, Continued

C. Risk Disclosures, Continued

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy provides that final maturities of securities cannot exceed five years. Specific maturities of investments depend on liquidity needs. At June 30, 2005, the City's pooled cash and investments had the following maturities:

<u>Maturity</u>	<u>Percentage of Investment</u>
Less than one year	63%
One to two years	17%
Two to three years	10%
Three to four years	9%
Four to five years	1%

The average life of the portfolio was 400 days.

Credit Risk. It is the City's policy that commercial paper have a credit rating of A1 by Standard & Poor's or P-1 by Moody's Investors Service. Corporate bonds and medium-term notes must have a rating of AA or better. Mutual funds and federal agency securities must have the highest rating issued by the nationally recognized statistical rating organizations. The Local Agency Investment Fund (LAIF), administered by the State of California, has a separate investment policy, governed by Government Code Sections 16480-16481.2, that provides credit standards for its investments. The City's investments in federal agencies are rated AAA by Standard & Poor's and Moody's Investor Service. Medium term notes and corporate bonds are rated from AA to AAA by Standard & Poor's and Moody's Investor Service. Banker's acceptances are secured by bills of lading. Time and demand deposits over \$100,000 are collateralized by the financial institution. All investments in commercial paper are rated A1 by Standard & Poor's and P-1 by Moody's Investors Service.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All securities, with the exception of the money market funds and LAIF, are held by a third-party custodian, Bank of New York Trust Company (BNY). BNY is a registered member of the Federal Reserve Bank. The securities held by BNY are in street name, and a customer number assigned to the City identifies ownership.

D. Fair Value Adjustment

GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, requires that the City's investments be carried at fair market value instead of cost. Accordingly, the City adjusts the carrying value of its investments to reflect their fair value at each fiscal year-end and the effects of these adjustments are included in income for that fiscal year. Changes in value in the fiscal year ended June 30, 2005 from the fiscal year ended, June 30, 2004, amounted to an unrealized decrease of \$505,126.

City of Fremont
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

2. CASH AND INVESTMENTS, Continued

E. External Investment Pool

The City invests in the California Local Agency Investment Fund (LAIF), a State of California external investment pool. LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available, and on amortized cost or best estimate for those securities where market value is not readily available.

The City values its investments in LAIF at amortized cost, which approximates the fair market value.

The City's investments with LAIF at June 30, 2005, include a portion of pool funds invested in structured notes and asset-backed securities. These investments may include the following:

Structured Notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or have embedded forwards or options.

Asset-Backed Securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets, such as principal and interest repayments from a pool of mortgages (e.g., CMOs) or credit card receivables.

As of June 30, 2005, the City had \$44,700,000.00 invested in LAIF, which had invested 2.406% of the pool's funds in structured notes and asset-backed securities.

3. RECEIVABLES

As of June 30, 2005, the City had the following receivables:

A. Housing Loans Receivable

At June 30, 2005, the City was owed, in its Community Development Block Grant Fund, \$1,175,808, for various housing assistance loans made by the City. The terms of repayment are for 20 years at 5% interest per annum. Because the notes do not meet the City's availability criteria for revenue recognition, the City has deferred the revenue related to these loans.

In addition, the City was owed \$663,953 in HELP loans at the end of the fiscal year. The terms of repayment for the housing loans are 3 years at 3% interest per annum.

The City has issued various other housing loans that are expected to be forgiven in future years. As a result, the City has recorded an allowance in anticipation of the amount to be forgiven for loans receivable in the same amount as the outstanding principal on those loans, resulting in a zero balance in the basic financial statements. Interest on the loans is recorded as interest receivable with an offsetting amount of deferred revenue because the City's revenue recognition criteria have not been met. The cumulative amount of these loans as of June 30, 2005 is \$46,581,274 and the accumulated interest receivable is \$5,982,251.

City of Fremont
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

3. RECEIVABLES, Continued

B. Interest Receivable

Interest receivable at June 30, 2005 consists of the following:

Interest receivable on investments held by City	\$ 1,999,558
Interest receivable on investments held by fiscal agents	8,982
Interest on housing loans, home loans and rehabilitation loans receivable	<u>5,982,251</u>
Total governmental funds interest receivable	<u>7,990,791</u>
Interest receivable on fiduciary funds held by City	<u>37,065</u>
Total interest receivable	<u><u>\$ 8,027,856</u></u>

4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2005, consists of the following:

	Balance June 30, 2004	Adjustments	Increase	Decrease	Transfers	Balance June 30, 2005
Nondepreciable Assets:						
Land	\$ 183,602,187	\$ -	\$ 14,996,057	\$ -	\$ -	\$ 198,598,244
Land improvements	5,260,249	-	-	-	-	5,260,249
Infrastructure	366,649,303	-	475,888	-	-	367,125,191
Construction in progress	<u>55,937,210</u>	<u>(377,615)</u>	<u>10,299,735</u>	<u>-</u>	<u>(35,820,627)</u>	<u>30,038,703</u>
Total nondepreciable assets	<u>611,448,949</u>	<u>(377,615)</u>	<u>25,771,680</u>	<u>-</u>	<u>(35,820,627)</u>	<u>601,022,387</u>
Depreciable Assets:						
Building and improvements	79,673,684	(3,888)	-	-	33,427,564	113,097,360
Equipment	12,039,697	(1,284,617)	660,640	-	2,393,063	13,808,783
Vehicles	23,590,898	(1,184,778)	652,826	(829,477)	-	22,229,469
Infrastructure	<u>317,012,786</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>317,012,786</u>
Total depreciable assets	<u>432,317,065</u>	<u>(2,473,283)</u>	<u>1,313,466</u>	<u>(829,477)</u>	<u>35,820,627</u>	<u>466,148,398</u>
Less Accumulated Depreciation For:						
Building and improvements	(26,883,235)	-	(2,292,122)	-	-	(29,175,357)
Equipment	(7,796,411)	1,339,985	(1,405,363)	-	-	(7,861,789)
Vehicles	(11,221,560)	736,025	(1,894,618)	732,720	-	(11,647,433)
Infrastructure	<u>(306,686,125)</u>	<u>-</u>	<u>(1,252,349)</u>	<u>-</u>	<u>-</u>	<u>(307,938,474)</u>
Total accumulated depreciation	<u>(352,587,331)</u>	<u>2,076,010</u>	<u>(6,844,452)</u>	<u>732,720</u>	<u>-</u>	<u>(356,623,053)</u>
Total depreciable assets, net	<u>79,729,734</u>	<u>(397,273)</u>	<u>(5,530,986)</u>	<u>(96,757)</u>	<u>35,820,627</u>	<u>109,525,345</u>
Total capital assets, net	<u>\$ 691,178,683</u>	<u>\$ (774,888)</u>	<u>\$ 20,240,694</u>	<u>\$ (96,757)</u>	<u>\$ -</u>	<u>\$ 710,547,732</u>

City of Fremont
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

4. CAPITAL ASSETS, Continued

Depreciation expense was charged to functions and programs of the primary government, as follows:

Governmental Activities:	
General government	\$ 959,089
Police services	874,720
Fire services	972,483
Human services	12,833
Capital assets maintenance and operations	3,898,136
Recreation and leisure services	38,827
Community development and environmental services	<u>88,364</u>
Total depreciation expense, governmental activities	<u>\$ 6,844,452</u>

In accordance with GASB Statement No. 34, the City has reported all capital assets including infrastructure in the Government-Wide Statement of Net Assets. The City elected to use the modified approach, as defined by GASB Statement No. 34, for infrastructure reporting for its pavement system. As a result, no accumulated depreciation expense has been recorded for this system. A more detailed discussion of the modified approach is presented in the Required Supplementary Information section of this report. All other capital assets, including other infrastructure systems, are reported using the basic approach whereby accumulated depreciation and depreciation expense have been recorded.

City of Fremont
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

5. LONG-TERM DEBT

A summary of changes in governmental activities long-term debt and compensated absences for the year ended June 30, 2005, is as follows:

	Interest Rates	Amounts Outstanding June 30, 2004	Adjustment	Incurred or Issued	Satisfied or Matured	Amounts Outstanding June 30, 2005	Amounts Due Within One Year	Amounts Due in More than One Year
Redevelopment Agency								
Tax Allocation Bonds:								
Series 2000	1.80- 4.40%	\$ 3,035,000	\$ -	\$ -	\$ (3,035,000)	\$ -	\$ -	\$ -
Series 2003	1.80 - 4.40%	18,045,000	-	-	-	18,045,000	2,025,000	16,020,000
Series 2004	3%-4%	41,425,000	-	-	(540,000)	40,885,000	3,540,000	37,345,000
Total tax allocation bonds		62,505,000	-	-	(3,575,000)	58,930,000	5,565,000	53,365,000
General Obligation Bond :								
Fire Safety Bond 2003	1.00- 4.40%	10,000,000	-	-	(180,000)	9,820,000	190,000	9,630,000
Fire Safety Bond 2005	3.50- 5.00%	-	-	25,000,000	-	25,000,000	-	25,000,000
Total general obligation bonds		10,000,000	-	25,000,000	(180,000)	34,820,000	190,000	34,630,000
Certificates of Participation:								
1990 Public Financing Authority	Variable Rate	5,200,000	-	-	(300,000)	4,900,000	325,000	4,575,000
1991 Public Financing Authority	Variable Rate	4,000,000	-	-	(100,000)	3,900,000	100,000	3,800,000
1998 Public Financing Authority	Variable Rate	11,570,000	-	-	(235,000)	11,335,000	245,000	11,090,000
1998 Public Financing Authority	3.80 - 4.75%	18,110,000	-	-	(515,000)	17,595,000	530,000	17,065,000
2001 Public Financing Authority	Variable Rate	34,220,000	-	-	(675,000)	33,545,000	700,000	32,845,000
2001B Public Financing Authority	Variable Rate	9,750,000	-	-	(320,000)	9,430,000	335,000	9,095,000
2002 Public Financing Authority	Variable Rate	36,820,000	-	-	(830,000)	35,990,000	850,000	35,140,000
2003 Public Financing Authority	Variable Rate	21,930,000	-	-	-	21,930,000	835,000	21,095,000
Total certificates of participation		141,600,000	-	-	(2,975,000)	138,625,000	3,920,000	134,705,000
Unamortized Long term bond discount		362,223	-	362,917	(43,486)	681,654	-	681,654
Total long-term debt		214,467,223	-	25,362,917	(6,773,486)	233,056,654	9,675,000	223,381,654
Compensated absences		8,309,634	(1,018,877)	5,931,782	(6,104,521)	7,118,018	-	7,118,018
Total long-term debt with compensated absences		<u>\$ 222,776,857</u>	<u>\$ (1,018,877)</u>	<u>\$ 31,294,699</u>	<u>\$ (12,878,007)</u>	<u>\$ 240,174,672</u>	<u>\$ 9,675,000</u>	<u>\$ 230,499,672</u>

The adjustment of (\$1,018,177) is because of a reclassification of overtime payable to salary and wages payable from compensated absences.

City of Fremont
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

5. LONG-TERM DEBT, Continued

Amounts of long-term debt payable in the government-wide financial statements are generally payable from amounts available in related debt service funds and from annual property tax and certain other revenues collected for the purpose of retiring the respective debt obligations.

The annual principal and interest requirements of long-term debt are as follows:

Year Ending June 30, 2005	Tax Allocation Bonds		General Obligation Bond		Certificates of Participation	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 5,565,000	\$ 1,935,436	\$ 190,000	\$ 1,346,921	\$ 3,920,000	\$ 3,683,392
2007	5,720,000	1,784,521	200,000	1,565,753	4,055,000	3,541,852
2008	5,880,000	1,618,856	210,000	1,551,403	4,210,000	3,440,498
2009	6,060,000	1,438,596	220,000	1,536,353	4,475,000	3,318,103
2010	6,255,000	1,241,287	740,000	1,511,678	4,610,000	3,200,020
2011-2015	29,450,000	2,690,523	4,320,000	7,080,710	25,895,000	14,023,993
2016-2020	-	-	5,355,000	6,161,997	28,110,000	10,312,114
2021-2025	-	-	6,540,000	4,899,112	31,315,000	6,203,228
2026-2030	-	-	8,130,000	3,188,918	24,170,000	2,080,345
2031-2035	-	-	8,915,000	1,049,313	7,865,000	331,337
Total	\$ 58,930,000	\$ 10,709,219	\$ 34,820,000	\$ 29,892,158	\$ 138,625,000	\$ 50,134,882

A. General Obligation Bonds, Election of 2002

On June 11, 2002, the City Council approved a list of projects for inclusion in the Fire Safety Bond (Measure R), which was placed on the November 2002 ballot. In November 2002, Fremont voters approved Measure R by 74.4%, thereby authorizing the City to issue \$51,000,000 in general obligation bonds, to be repaid by a property tax levy. Proceeds from these bonds will be used to replace three fire stations, build a public safety-training center, and make remodeling and seismic improvements to seven existing fire stations. The first issue of these bonds, in the amount of \$10,000,000, was sold on July 17, 2003. The second issue of these bonds, in the amount of \$25,000,000, was sold on April 15, 2005. Interest on both issues is payable semiannually on each February 1 and August 1, while principal is payable on August 1.

B. Special Assessment Debt (No City Commitment)

Special assessment bonds have been issued under various public improvement acts of the State of California and are secured by liens against properties deemed to have been benefited by the improvements for which the bonds were issued. The City is not liable for repayment and acts only as an agent for the property owners in collecting the assessments, forwarding the collections to bondholders, and initiating foreclosure proceedings when necessary. These bonds are payable solely from assessments, specific reserves, and the proceeds from property foreclosures. As of June 30, 2005, special assessment and special tax bonded indebtedness (long-term and current portions) was approximately \$52,000,000, which was not recognized in the accompanying basic financial statements.

City of Fremont
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

5. LONG-TERM DEBT, Continued

C. Community Facilities District Special Tax Bonds (No City Commitment)

Special tax bonds were issued under the Mello-Roos Community Facilities Act of 1982. The proceeds of the 2001 bonds are to be utilized to finance the acquisition of specified public capital improvements for the development of the District, known as Pacific Commons. The District is intended to be a business park with commercial and industrial facilities. The property owners, with Catellus Development Corporation as the master developer and majority landowner, are obligated to pay the interest and principal on the 2001 bonds through an annual levy pursuant to the Rate and Method of Apportionment approved by the City Council and the qualified elector of the District. The 2001 bonds are not a general debt liability of the City and are solely payable from the annual facilities special tax levy and the reserve fund. As of June 30, 2005, the 2001 bond indebtedness was \$29,980,000.

On June 26, 2005, the City Council approved the issuance of \$38,000,000 of Community Facilities District 1, Special Tax, Series B (Pacific Commons) bonds. These bonds were issued on July 21, 2005. The net proceeds of the Series B bonds will be used to reimburse the developer for the costs of specified public improvements that have been or are to be built or otherwise conveyed to public agencies in conjunction with the development of Pacific Commons.

D. Residential Mortgage Loan Program (No City Commitment)

The Agency issued \$148,365,000 of housing program revenue bonds in 1986. The proceeds of the bonds were placed with a trustee for the purpose of providing certain mortgage loans. The trustee disburses the bond proceeds in accordance with the terms of the bond offerings and then services the mortgage loans. The bonds are not an obligation of the City or the Agency. The bond obligations and the related assets held by the trustee are not included in the accompanying basic financial statements.

E. Compensated Absences

The City records a liability to recognize the financial effect of unused vacation and other compensated leaves. The total of vacation and other compensated leaves is \$7,118,018 which is due in more than one year. The City typically uses the General Fund to liquidate compensated absences.

6. RISK MANAGEMENT

The City is exposed to various exposures related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City established the Risk Management Internal Service Fund to account for and finance its uninsured risks of loss. Under the City's risk management program, the City retains risk for up to \$500,000 for each workers' compensation claim, \$500,000 for each general liability claim, and \$25,000 for each property claim. The liability for general liability claims and workers' compensation claims in excess of \$500,000 is discussed below.

The City records estimated liabilities for claims filed or expected to be filed up to the amounts for which it retains risk in the Risk Management Internal Service Fund. Charges to the General Fund and other funds

City of Fremont
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

6. RISK MANAGEMENT, Continued

are a percentage of payroll costs, as determined from an analysis of claims costs, and are recorded as expenditures or expenses of such funds and revenues of the Risk Management Internal Service Fund.

The City retained an independent actuary in 2004 and 2005 to perform an analysis of the City's potential liability for its retained risk portions of the general liability and workers' compensation programs. The amount recorded as a liability consists of the specific reserves (self-insured retention) for individual known claims or lawsuits and estimates for incurred but not reported claims. The present value of estimated outstanding losses is calculated using a 5% discount rate to reflect future investment earnings. There were no reductions in insurance coverage from the prior year and there were no insurance settlements that exceeded coverage in each of the past years.

Changes in the balances of claim liabilities (shown as claims payable in the accompanying basic financial statements) during the past three fiscal years ended June 30, 2005, 2004 and 2003, are as follows:

	2005	2004	2003
Balance, beginning of year	\$ 8,246,000	\$ 5,736,564	\$ 6,462,467
Provision for claims losses	4,775,050	6,474,337	2,893,127
Claims payments	(3,716,050)	(3,964,901)	(3,619,030)
Balance, end of year	<u>\$ 9,305,000</u>	<u>\$ 8,246,000</u>	<u>\$ 5,736,564</u>
Due in one year	<u>\$ 3,861,426</u>	<u>\$ 2,851,483</u>	<u>\$ 3,508,908</u>
Due in more than one year	<u>\$ 5,443,574</u>	<u>\$ 5,394,517</u>	<u>\$ 2,227,656</u>

A. Participation in Public Entity Risk Pools

In February 1986, the City joined with other municipalities and regional municipal joint powers authorities to form the California Joint Powers Risk Management Authority (CJPRMA), a public entity risk pool currently operating as a general liability risk management and insurance program for 22 member entities. The purpose of the CJPRMA is to spread the adverse effects of losses among the member agencies. General liability claims in excess of \$500,000 and up to \$25,000,000 per occurrence are covered by the CJPRMA. Five years after settlement of all claims for a program year, CJPRMA retroactively adjusts premium deposits for any excess or deficiency in deposits related to paid claims and reserves.

City of Fremont
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

6. RISK MANAGEMENT, Continued

A. Participation in Public Entity Risk Pools, Continued

Summary financial information for CJPRMA as of and for the year ended June 30, 2004 (latest available date), is as follows:

Cash and investments	\$ 64,873,365
Premiums and fees receivable	908,849
Other assets	<u>77,628</u>
Total assets	<u>\$ 65,859,842</u>
Total reserves, unearned premiums and other liabilities	\$ 36,069,353
Retained earnings	<u>29,790,489</u>
Total liabilities and retained earnings	<u>\$ 65,859,842</u>
Net premiums earned	\$ 12,763,581
Loss provision and premiums paid	(6,520,102)
General and administrative expenses	<u>(926,037)</u>
Operating income	5,317,442
Investment income (loss)	<u>(1,229,304)</u>
Net income	4,088,138
Refunds to members	<u>(8,007,273)</u>
Change in net assets	<u>\$ (3,919,135)</u>

The CJPRMA refunds excess contributions to members from time to time, based on the results of actuarial studies of each program year's claims experience. These refunds include cumulative earnings on program year contributions but may be reduced by amounts required to fund prior or subsequent year unfavorable claims experience.

The CJPRMA governing board consists of a representative from each member entity. All members have a single vote for policy and charter changes. An executive committee of seven is elected to handle administration. Complete financial statements for the CJPRMA can be obtained from CJPRMA, 2333 San Ramon Valley Blvd., Suite 250, San Ramon, California 94583.

In July 1992, the City joined with other municipalities and special districts to form the Local Agency Workers' Compensation Excess Joint Powers Authority (LAWCX), a public entity risk pool currently operating as a workers' compensation risk management and insurance program for 27 member entities. Workers' compensation claims in excess of \$500,000 and up to \$1,000,000 are covered by LAWCX, and claims in excess of \$1,000,000 are insured with commercial carriers through LAWCX.

City of Fremont
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

6. RISK MANAGEMENT, Continued

A. Participation in Public Entity Risk Pools, Continued

Summary financial information for LAWCX as of and for the year ended June 30, 2004 (latest available date), is as follows:

Cash and equivalents	\$ 5,575,987
Excess reimbursements receivable	310,242
Premiums and fees receivable	1,287,718
Prepaid assets	2,319
Investments	5,553,713
Total assets	\$ 12,729,979
 Total reserves, unearned premiums and other liabilities	 \$ 13,090,935
Retained earnings	(360,956)
Total liabilities and retained earnings	\$ 12,729,979
 Net premiums earned	 \$ 7,701,763
Less: Expenses	(7,952,592)
Net income (loss)	\$ (250,829)

Each member of LAWCX is entitled to a seat on the board of directors and to cast weighted votes as set forth in the joint powers agreement. An underwriting committee of five representatives from the members and an executive committee of five representatives are elected to formulate recommendations to the Board. Complete financial statements for LAWCX can be obtained from LAWCX, c/o Bickmore Risk Services, 1020 19th Street, Suite 200, Sacramento, California 95814.

7. INTERFUND TRANSACTIONS

A. Interfund Receivables and Payables

Interfund receivables and payables represent short term loans owed by Non-major Governmental Funds to the General Fund for purposes of covering short term negative cash positions. These interfund transactions are routine year end adjustments. Interfund receivables and payables at June 30, 2005, were as follows:

	Due to	
	Non-Major	
	Governmental	
Due from	Funds	Total
General Fund	\$ 1,072,318	\$ 1,072,318
Total	\$ 1,072,318	\$ 1,072,318

City of Fremont
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

7. INTERFUND TRANSACTIONS, Continued

B. Interfund Transfers

The General Fund transfers resources to other funds to support activities that cannot be supported through fees, grants, or charges for service. These activities include capital projects, debt service, maintenance, and certain cost center operations. There are also a variety of additional transfers between the General Fund and other funds to cover such items as overhead and vehicle replacement charges.

As part of the City's annual financial audit for the fiscal year ended June 30, 2004, the City retained an independent actuary to estimate the costs of general liability and worker's compensation claims as of June 30, 2004. The actuarial report revealed that the estimated potential liability for claims as of June 30, 2004 had increased, causing the Risk Management Fund to be underfunded by \$2,072,987. As a result, Council approved transfers from the General Fund and other affected funds to the Risk Management Fund to preserve the actuarial soundness of the City's Risk Management Program for the fiscal year ended June 30, 2005.

Interfund transfers for the year ended June 30, 2005, were as follows:

	Transfers In								Total
	General	Redeve-	Integrated	Development	Recreation	Capital	Non-Major	Internal	
	Fund	lopment	Waste	Cost	and Leisure	Maintenance	Governmental	Service	
		Agency	Mgt	Center	Services		Funds	Funds	
General Fund	\$ -	\$ 9,008	\$ 32,184	\$ 2,400,457	\$ 2,444,434	\$ 18,634,252	\$ 7,787,520	\$ 1,801,250	\$ 33,109,105
Redevelopment Agency	328,116	-	-	-	-	-	1,070	11,867	341,053
Development Impact Fees	900,000	-	-	-	-	-	892,182	-	1,792,182
State Gas Tax	-	-	-	-	-	1,150,000	-	-	1,150,000
Integrated Waste Management	198,904	-	-	-	-	2,000,000	1,134	5,103	2,205,141
Development Cost Center	1,645,697	-	-	-	-	-	585,389	119,143	2,350,229
Recreation and Leisure Services	543,517	-	-	-	-	-	23,002	29,455	595,974
Capital Maintenance	2,255,783	-	-	-	-	-	577,602	211,192	3,044,577
Non-Major Governmental Funds	259,961	-	-	-	-	213,000	3,847,034	8,572	4,328,567
Internal Service Funds	458,604	-	-	-	-	-	6,076	18,845	483,525
Total	\$ 6,590,582	\$ 9,008	\$ 32,184	\$ 2,400,457	\$ 2,444,434	\$ 21,997,252	\$ 13,721,009	\$ 2,205,427	\$ 49,400,353

8. RETIREMENT BENEFITS

A. California Public Employees' Retirement System

Plan Description - The City's defined benefit pension plans, City of Fremont Miscellaneous Plan and City of Fremont Safety Plan, provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries through the California Public Employees' Retirement System (CalPERS). All permanent City employees classified as full-time, as well as part-time permanent

City of Fremont
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

8. RETIREMENT BENEFITS, Continued

A. California Public Employees' Retirement System, Continued

and temporary City employees who work 1,000 or more hours per year, are required to participate in CalPERS. Benefits vest after five years of service.

City employees who retire at or after age 55 (50 for safety employees) are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2.5% for miscellaneous employees and 3% for safety employees for each year of service of their highest annual salary. The service retirement benefit for public safety is capped at 90% of final compensation. There is no cap on retirement benefits for miscellaneous employees. CalPERS also provides death and disability benefits. These benefit provisions and all other requirements are established by State statute and City ordinance.

The City of Fremont Miscellaneous Plan and City of Fremont Safety Plan are part of the Public Agency portion of CalPERS, an agent multiple-employer defined benefit pension plan. CalPERS acts as a common investment and administrative agent for participating public employers within the State of California. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, California 95814.

Funding Policy – Active plan members in the City of Fremont Miscellaneous Plan are required to contribute 8% of their annual covered salary. Active plan members in the City of Fremont Safety Plan are required to contribute 9% of their annual covered salary. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2004/05 was 12.944% of covered payroll for miscellaneous employees and 25.955% of covered payroll for safety employees. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is actuarially established and may be amended by CalPERS.

Annual Pension Cost – For fiscal year 2004/05 the City's annual pension cost was \$13,032,516, which was equal to the City's required and actual contributions. The required contribution rate for fiscal year 2004/05 was determined as part of the June 30, 2002 actuarial valuation, which used the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (1) 8.25% investment rate of return (net of administrative expenses); (2) projected salary increases that vary by duration of service ranging from 3.75% to 14.20% for miscellaneous members, and from 3.75% to 11.59% for safety members; (3) an inflation component of 3.5%, and (4) 3% annual cost-of-living adjustment for miscellaneous members and 2% annual cost-of-living adjustment for safety members. The actuarial values of the Miscellaneous and Safety Plans' assets were determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a three-year period. CalPERS' unfunded actuarial accrued liability (or surplus) is amortized as a level percentage of projected payrolls on a closed basis.

The amortization period at June 30, 2002, was 20 years for both miscellaneous and safety members for prior and current service unfunded liabilities.

City of Fremont
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

8. RETIREMENT BENEFITS, Continued

A. California Public Employees' Retirement System, Continued

Following is three-year trend information for both plans:

Three-Year Trend Information for City of Fremont Miscellaneous Plan

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/03	\$ 1,318,483	100%	-
6/30/04	2,246,316	100%	-
6/30/05	3,965,974	100%	-

Three-Year Trend Information for City of Fremont Safety Plan

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/03	\$ 3,760,436	100%	-
6/30/04	4,521,222	100%	-
6/30/05	9,066,542	100%	-

B. Post-Retirement Benefits

In addition to providing the retirement benefits described above, the City provides post-retirement healthcare benefits, in accordance with bargaining unit agreements, to qualified retired employees. Retirees must make an election within 90 days following the date of separation from City employment to be eligible for the benefits. The number of employees currently eligible to receive the benefit has increased from 481 in the previous year to 520 in the current year. The City reimburses all or part of premium payments for medical insurance. The reimbursement amount is subject to a negotiation process and varies by bargaining unit and retirement date. The benefit is paid monthly to the retiree subject to proof of coverage and attestation of premium payment. The benefit generally ceases upon death of the retiree. Expenditures for post-retirement benefits are recognized on a pay-as-you-go basis. Total expenditures for premium reimbursement in the years ended June 30, 2004 and June 30, 2005, were approximately \$1,052,275 and \$1,212,158, respectively.

City of Fremont
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

9. COMMITMENTS AND CONTINGENCIES

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the City.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

In cooperation and financing agreement between the City and the Agency, the City and the Agency agree to share the costs of improvements for four freeway interchanges on Interstate 880, of which two are completed, and a third is substantially complete. In a joint powers agreement with the City of Milpitas, California, the City of Milpitas has agreed to match the City and Agency's contribution towards the costs of improving one of these four freeway interchanges. As of June 30, 2005, the City and Agency had incurred cumulative project expenditures of \$53,401,345 for the four interchanges. Management's estimate of remaining project costs, including outside funding sources, is \$215,000,000.

The Agency has entered into agreements with various taxing authorities whereby the Agency passes through a portion of its incremental property tax received from the County for these taxing authorities. These payments are shown as intergovernmental expenditures in the accompanying basic financial statements. As of June 30, 2005, the total pass-through obligation of \$7,445,224 had not yet been paid. This amount is included in due to other governmental agencies in the accompanying basic financial statements.

A. Housing Loan Commitments

Maple Square Apartment Homes - In September 2004, the Agency approved a \$1,094,801 loan to Affirmed Housing Group/Fremont Family Housing Partners, L.P., increasing the total loan commitment to \$12,306,961 for Maple Square Apartment Homes. The Agency's development loan is secured by a trust deed and covers predevelopment, acquisition and construction costs. Maple Square has 132 affordable apartments for families and is located on Maple Street in the Centerville Redevelopment Project Area. Construction started in January 2005. As of June 30, 2005, \$11,420,013 has been disbursed for predevelopment, land acquisition and development costs.

Rotary Bridgeway Apartments - To date, the Agency has committed a total of \$2,869,000 to Rotary Bridgeway Apartments, consisting of 18 new affordable rental apartments recently constructed on Bay Street in the Irvington Redevelopment Project Area. Bridgeway East, L.P., whose general partner is Tri-City Homeless Coalition developed the family apartments. As of June 30, 2005, the Agency has appropriated \$2,751,000 of affordable housing funds and \$118,000 of non-housing funds for this development. As of June 30, 2005, \$2,751,000 has been expended for predevelopment, land acquisition and construction costs.

City of Fremont
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

9. COMMITMENTS AND CONTINGENCIES, Continued

A. Housing Loan Commitments, Continued

Fremont Oak Gardens - To date, the Agency has committed \$3,300,000 of affordable housing funds to Fremont Oak Gardens, a 51-unit senior affordable housing development recently constructed by the Deaf Senior Retirement Corporation. As of June 30, 2005, \$3,300,000 has been expended for predevelopment, land acquisition and construction costs.

Century Village Apartments - On September 23, 2003, the Agency approved a \$553,000 Agency affordable housing loan for Mid-Peninsula Century Village Associates, L.P. (Mid-Peninsula Housing Coalition), to address health and safety improvements at Century Village Apartments, located at 41299 Paseo Padre Parkway in Fremont. As of June 30, 2005, \$543,562 has been disbursed for these improvements, consisting primarily of a fire sprinkler/alarm system for the 100-unit apartment complex. All improvements were completed during the fiscal year.

Lincoln Street Apartments - In September 2003, the Agency approved a loan in an amount of \$131,350 in Redevelopment Agency affordable housing funds towards the construction of an 11-unit apartment complex for very low-income adults with developmental disabilities. The total amount of the City's contribution to this development, including Redevelopment Agency housing funds, is \$1.485 million. This includes funds from the City's CDBG and HOME programs.

Irvington Family Apartments - In September 2004, the Agency approved a predevelopment loan in an amount of \$310,000 to BRIDGE Housing, Inc., for predevelopment costs associated with the construction of 100 new family apartments in the Irvington Redevelopment Project Area. In January 2005, the City Council and Redevelopment Agency approved a \$9.175 million loan for acquisition and development costs.

With respect to the loan commitments described above, the Agency is repaid based on the type of loan and whether the affordable housing units are for sale or rental. If it is an apartment project, borrowers agree to pay the Agency an amount equal to excess cash, which is defined as the operating revenue in excess of the amount required for operation of the development, including current debt service, other mortgage loans, property management fees, taxes, insurance and other operating costs. In the event that excess cash is not generated, all loan principal and interest payments are deferred. If it is a short-term construction loan, borrowers agree to pay the Agency when permanent financing is in place. Loans issued for homeownership are generally repaid with interest at the time of sale or within a specified period or are issued as equity sharing loans. The Agency has not recorded receivables related to these agreements because the amount of the receivables is not currently available.

City of Fremont
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

10. PRIOR PERIOD ADJUSTMENT

The Government-wide Statement of Activities and Change in Net Assets includes a prior period adjustment for the year ended June 30, 2005, in the amount of \$5,166,138 for unearned revenue related to interest receivable in prior years that had been deferred in both the Governmental funds Statements and the Government-wide Statements. Although this item continues to be reported as unearned revenue in the Governmental Funds Statements, it is recognized as interest income in the Government-wide Statements, consistent with the principles of accrual accounting.

	Net Assets as Previously Reported	Noncurrent Liabilities: Deferred Revenue	Net Assets As Restated
Total Government-Wide Activities	\$747,700,613	\$5,166,138	\$752,866,751

11. SUBSEQUENT EVENTS

At June 30, 2005, Tax and Revenue Anticipation Notes (TRANs) payable in the principal amount of \$15,000,000 were outstanding. The notes and related interest are due and payable on October 6, 2005.

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REQUIRED SUPPLEMENTARY INFORMATION

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City of Fremont
Required Supplementary Information
For the year ended June 30, 2005

1. BUDGETARY INFORMATION

Through the budget, the City Council sets the direction of the City, allocates its resources and establishes its priorities. The Annual Budget assures the efficient and effective uses of the City's economic resources, as well as establishing that highest priority objectives are accomplished.

The Annual Budget serves from July 1 to June 30, and is a vehicle that communicates these priorities to the community, businesses, vendors, employees and other public agencies. In addition, it establishes the foundation of effective financial planning by providing resource allocation, performance measures and controls that permit the evaluation and adjustment of the City's performance.

The City follows these procedures in establishing the budgetary data reflected in the basic financial statements:

- a) The City Council adopts an annual budget by resolution prior to August 1 of each fiscal year. The annual budget indicates appropriations by fund or, in some instances, by program. The City Council may adopt supplemental appropriations during the year. At the fund level, expenditures may not legally exceed appropriations. The City Manager is authorized to transfer budgeted amounts between departments or programs within any fund.

The City Manager may also increase appropriations for operating expenditures for the Development Cost Center and Recreation Cost Center when quarterly fee estimates in those funds exceed the amounts estimated at the time of budget adoption because of increased fee activity. Any revisions or transfers that alter the total appropriations of other funds must be approved by the City Council.

- b) Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP). Annual appropriated budgets are adopted for the General and certain special revenue funds (specifically Redevelopment Agency, Integrated Waste Management, Development Cost Center and Recreation Services). Project-length budgets are adopted for all capital projects funds, and either project-length budgets or non-appropriated financial plans are adopted for certain other special revenue funds (all special revenue funds except those specifically mentioned in the preceding sentence).
- c) Supplementary budgetary changes were adopted by the City Council during the year; however, these supplemental budgetary changes were not material in relation to the budget as originally adopted.

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental fund types. Encumbrances outstanding at year-end are reported as reservations of fund balance and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

City of Fremont
Required Supplementary Information, Continued
For the year ended June 30, 2005

1. BUDGETARY INFORMATION, Continued

Unexpended annual appropriations lapse at the end of the fiscal year; encumbered appropriations are re-budgeted in the next fiscal year. Unexpended capital improvement appropriations are carried forward until the improvements or programs are complete.

Following are the budget comparison schedules for the General Fund and applicable major special revenue funds for which an annual operating budget was adopted.

Budgetary Comparison Schedule, General Fund

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Positive (Negative)
Fund Balance - Beginning	\$ 30,108,000	\$ 30,108,000	\$ 36,948,893	\$ 6,840,893
Resources (inflows):				
Property tax	36,089,000	36,089,000	34,035,805	(2,053,195)
Sales tax	30,772,000	30,772,000	30,619,014	(152,986)
Business tax	6,445,000	6,445,000	6,092,081	(352,919)
Other taxes	3,033,000	3,033,000	3,802,272	769,272
Motor vehicle in lieu	12,638,000	15,908,000	15,780,426	(127,574)
Franchises	7,204,000	7,204,000	7,546,775	342,775
Charges for services	6,589,000	6,589,000	7,611,792	1,022,792
Intergovernmental	862,000	878,780	878,506	(274)
Investment earnings	1,239,000	1,239,000	1,893,133	654,133
Others	887,000	887,000	181,654	(705,346)
Operating transfers in	6,929,000	6,929,000	6,590,582	(338,418)
Resources available for appropriation	112,687,000	115,973,780	115,032,040	(941,740)
Charges to appropriations (outflows):				
General government	13,025,737	11,560,603	10,757,407	803,196
Police services	43,523,865	43,829,664	42,637,268	1,192,396
Fire services	25,699,236	25,847,840	24,876,078	971,762
Human services	2,652,531	2,696,386	2,610,663	85,723
Community development and environmental services	612,000	619,408	575,596	43,812
Capital outlay	-	68,746	68,746	-
Debt service:				
Interest and fiscal charges	150,000	622,568	603,950	18,618
Operating transfers out	29,924,000	33,253,745	33,109,105	144,640
Total charges to appropriations	115,587,369	118,498,960	115,238,813	3,260,147
Resources over (under) charges to appropriations	(2,900,369)	(2,525,180)	(206,773)	2,318,407
Fund Balance - Ending	\$ 27,207,631	\$ 27,582,820	\$ 36,742,120	\$ 9,159,300

City of Fremont
Required Supplementary Information, Continued
For the year ended June 30, 2005

1. BUDGETARY INFORMATION, Continued

Budgetary Comparison Schedule, Redevelopment Agency

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
Fund Balance - Beginning	\$ 108,159,664	\$ 108,159,664	\$ 110,075,547	\$ 1,915,883
Resources (inflows):				
Property tax	26,481,264	26,481,264	27,126,771	645,507
Investment earnings	2,250,000	2,250,000	2,527,651	277,651
Other	1,726,000	1,726,000	991,087	(734,913)
Operating transfers in	6,000,000	6,009,009	6,590,135	581,126
Resources available for appropriation	36,457,264	36,466,273	37,235,644	769,371
Charges to appropriations (outflows):				
Community development and environmental services	45,410,301	45,476,651	19,110,438	26,366,213
Intergovernmental	8,677,547	8,677,547	9,761,863	(1,084,316)
Capital outlay	8,483,261	8,483,261	8,483,261	-
Debt service:				
Principal	2,132,005	2,132,005	3,575,000	(1,442,995)
Interest and fiscal charges	-	-	2,674,180	(2,674,180)
Operating transfers out	6,328,117	6,340,319	6,922,180	(581,861)
Total charges to appropriations	71,031,231	71,109,783	50,526,922	20,582,861
Resources over (under) charges to appropriations	(34,573,967)	(34,643,510)	(13,291,278)	21,352,232
Fund Balance - Ending	\$ 73,585,697	\$ 73,516,154	\$ 96,784,269	\$ 23,268,115

City of Fremont
Required Supplementary Information, Continued
For the year ended June 30, 2005

1. BUDGETARY INFORMATION, Continued

Budgetary Comparison Schedule, Integrated Waste Management

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Positive (Negative)
Fund Balance - Beginning	\$ 8,917,746	\$ 8,917,746	\$ 7,417,727	\$ (1,500,019)
Resources (inflows):				
Charges for services	4,902,772	4,902,772	5,197,892	295,120
Intergovernmental	147,999	147,999	148,289	290
Operating transfers in	-	32,184	32,184	-
Resources available for appropriation	5,050,771	5,082,955	5,378,365	295,410
Charges to appropriations (outflows):				
Community development and environmental services	1,430,150	1,798,635	1,706,733	91,902
Capital Outlay	211,929	211,929	211,929	-
Operating transfers out	2,182,441	2,187,544	2,205,141	(17,597)
Total charges to appropriations	3,824,520	4,198,108	4,123,803	74,305
Resources over (under) charges to appropriations	1,226,251	884,847	1,254,562	369,715
Fund Balance - Ending	\$ 10,143,997	\$ 9,802,593	\$ 8,672,289	\$ (1,130,304)

Budgetary Comparison Schedule, Development Cost Center

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Positive (Negative)
Fund Balance - Beginning	\$ 3,053,604	\$ 3,053,604	\$ 3,546,355	\$ 492,751
Resources (inflows):				
Charges for services	8,577,529	8,586,029	8,472,035	(113,994)
Investment earnings	80,000	80,000	116,916	36,916
Operating transfers in	2,279,000	2,400,457	2,400,457	-
Resources available for appropriation	10,936,529	11,066,486	10,989,408	(77,078)
Charges to appropriations (outflows):				
Community development and environmental services	9,335,524	9,448,481	9,270,040	178,441
Operating transfers out	1,725,257	2,378,410	2,350,229	28,181
Total charges to appropriations	11,060,781	11,826,891	11,620,269	206,622
Resources over (under) charges to appropriations	(124,252)	(760,405)	(630,861)	129,544
Fund Balance - Ending	\$ 2,929,352	\$ 2,293,199	\$ 2,915,494	\$ 622,295

City of Fremont
Required Supplementary Information, Continued
For the year ended June 30, 2005

1. BUDGETARY INFORMATION, Continued

Budgetary Comparison Schedule, Recreation Services

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final	Amounts	
Fund Balance - Beginning	\$ 5,974,040	\$ 5,974,040	\$ 6,394,373	\$ 420,333
Resources (inflows):				
Charges for services	3,251,050	3,251,050	3,474,316	223,266
Investment earnings	105,150	105,150	171,033	65,883
Other revenues	500,032	500,032	24,660	(475,372)
Operating transfers in	2,425,000	2,444,434	2,444,434	-
Resources available for appropriation	6,281,232	6,300,666	6,114,443	(186,223)
Charges to appropriations (outflows):				
Recreation and leisure services	5,403,096	5,422,530	4,825,523	597,007
Operating transfers out	663,094	692,549	595,974	96,575
Total charges to appropriations	6,066,190	6,115,079	5,421,497	693,582
Resources over (under) charges to appropriations	215,042	185,587	692,946	507,359
Fund Balance - Ending	\$ 6,189,082	\$ 6,159,627	\$ 7,087,319	\$ 927,692

2. MODIFIED APPROACH FOR THE CITY'S INFRASTRUCTURE

In accordance with GASB Statement No. 34, the City accounts for and reports infrastructure capital assets. The City defines infrastructure as the basic physical assets including the street system; park and recreation lands and improvement system; storm water collection system; and site amenities associated with buildings, such as parking and landscaped areas, used by the City in the conduct of its business. Each major infrastructure system is divided into subsystems. For example, the street system is divided into concrete and asphalt pavements, concrete curb and gutters, sidewalks, medians, streetlights, traffic control devices (signs, signals and pavement markings), landscaping and land. Subsystem detail is not presented in these basic financial statements; however, the City maintains detailed information on these subsystems.

The City has elected to use the modified approach, as defined by GASB Statement No. 34, for the Roads and Streets networks. Under GASB Statement No. 34, eligible infrastructure capital assets are not required to be depreciated under the following conditions:

- The City manages the eligible infrastructure capital assets using an asset management system with characteristics of (1) an up-to-date inventory; (2) perform condition assessments and summarize the results using a measurement scale; and (3) estimate annual amount needed to maintain and preserve at the established condition assessment level.
- The City documents that the eligible infrastructure capital assets are being preserved approximately at or above the established and disclosed condition assessment level.

City of Fremont
Required Supplementary Information, Continued
For the year ended June 30, 2005

2. MODIFIED APPROACH FOR THE CITY'S INFRASTRUCTURE, Continued

In 2004, the City commissioned a study to update the physical condition assessment of the streets. The prior assessment study was completed in 2001. The streets, primarily concrete and asphalt pavements were defined as all physical features associated with the operation of motorized vehicles that exist within the limits of right of way. City-owned streets are classified based on land use, access and traffic utilization into the following four classifications: (1) arterial/major, (2) secondary, (3) collector and (4) local. This condition assessment will be performed every three years. Each street was assigned a physical condition based on 17 potential defects. A Pavement Condition Index (PCI), a nationally recognized index, was assigned to each street and expressed in a continuous scale from 0 to 100, where 0 is assigned to the least acceptable physical condition and 100 is assigned to the physical characteristics of a new street. The following conditions were defined:

<u>Condition</u>	<u>Rating</u>
Excellent	86-100
Good	71-85
Fair	51-70
Poor	26-50
Very Poor	0-25

The City's policy is to achieve an average rating of 70 for all streets. This rating allows minor cracking and raveling of the pavement along with minor roughness that could be noticeable to drivers traveling at the posted speeds. As of June 30, 2005, the City's street system was rated at a PCI index of 71 on the average with the detail condition as follows:

<u>Condition</u>	<u>Rating</u>	<u>% of Streets</u>	
		<u>June 30, 2005</u>	<u>June 30, 2004</u>
Excellent to Good	71-100	63.8%	65.7%
Fair	51-70	21.1%	21.2%
Poor to Substandard	0-50	15.1%	13.1%

The City's streets are constantly deteriorating due to the following four factors: (1) traffic using the streets; (2) the sun's ultra-violet rays drying out and breaking down the top layer of pavement; (3) utility company/private development interests' trenching operations; and (4) water damage from natural precipitation and other urban runoff. The City is continuously taking actions to arrest the deterioration through short-term maintenance activities, such as pothole patching, street sweeping, and sidewalk repair. The City expended \$384,506 on street maintenance for the fiscal year ended June 30, 2005. These expenditures delayed deterioration; however, the overall condition of the streets was not improved through these maintenance expenditures. The City estimates that the amount of annual expenditures required to maintain the City's streets at the average PCI rating of 71 through the year 2006 is an average of \$6,200,000. A schedule of estimated annual amounts calculated to maintain and preserve its streets at the current level compared to actual expenditures for street maintenance for the last five years follows.

City of Fremont
Required Supplementary Information, Continued
For the year ended June 30, 2005

2. MODIFIED APPROACH FOR THE CITY'S INFRASTRUCTURE, Continued

<u>Fiscal Year</u>	<u>Maintenance Estimate</u>	<u>Actual Expenditures</u>	<u>PCI Rating</u>
2000-01	4,275,217	9,933,502	78.00
2001-02	4,296,174	6,484,420	79.00
2002-03	4,255,081	6,777,620	79.00
2003-04	4,655,000	2,392,948	74.00
2004-05	5,500,000	384,506	71.00

The City also has an on-going street rehabilitation program funded in the Capital Improvement Program that is intended to improve the condition rating of City streets. The rehabilitation program is formulated based on deficiencies identified as a part of its Pavement Management System (PMS). As of June 30, 2005 approximately 36.2% of the City's streets were rated below the average standard of 70, a slight increase from 2003/04 when 34.3% were rated below 70. This also represents an increase since 2002/03, when the City had 33.4% of its streets rated below 70. The City will continue to rehabilitate these segments of the streets. Total deficiencies identified in the PMS amounted to approximately \$103,609,666 for all streets, with \$83,086,718 in deficiencies on street segments rated below the PCI of 70.

3. DEFINED BENEFIT PENSION PLAN

A schedule of funding progress for the year ended June 30, 2005, including the past three actuarial valuations, is presented below.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CalPERS)
SCHEDULE OF FUNDING PROGRESS

Miscellaneous Employees						Underfunded
Actuarial	Actuarial	Entry Age	Underfunded		Annual	Actuarial
Valuation	Asset	Actuarial	Actuarial	Funded	Covered	Liability as
Date*	Value	Accrued	Accrued	Ratio	Payroll	Covered
		Liability	Liability			Payroll
6/30/2002	\$ 146,258,520	\$ 161,226,754	\$ 14,968,234	90.7%	\$ 40,796,173	36.69%
6/30/2003	150,270,791	187,149,416	36,878,625	80.3%	40,440,958	91.19%
6/30/2004	161,076,023	204,787,713	43,711,690	78.7%	39,408,517	110.92%

City of Fremont
Required Supplementary Information, Continued
For the year ended June 30, 2005

3. DEFINED BENEFIT PENSION PLAN, Continued

PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CalPERS)
SCHEDULE OF FUNDING PROGRESS

Safety Employees

Actuarial Valuation Date*	Actuarial Asset Value	Entry Age Actuarial Accrued Liability	Underfunded Actuarial Accrued Liability	Funded Ratio	Annual Covered Payroll	Underfunded Actuarial Liability as Percentage of Covered Payroll
6/30/2002	\$ 226,395,106	\$ 254,901,949	\$ 28,506,843	88.8%	\$ 29,554,068	96.46%
6/30/2003	230,589,472	273,055,365	42,465,893	84.4%	29,421,414	144.34%
6/30/2004	243,827,133	295,673,895	51,846,762	82.5%	30,417,135	170.45%

* Latest available information

SUPPLEMENTARY INFORMATION

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NON-MAJOR GOVERNMENTAL FUNDS

City of Fremont
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2005
(With comparative totals for June 30, 2004)

	Special Revenue Funds			
	Community Development Block Grant	HOME Grant	HUD/HOPE Grant	HUD/SHP Grant
ASSETS				
Cash and investments held by City	\$ -	\$ -	\$ 5,533	\$ 3,758
Restricted cash and investments held by fiscal agent	-	-	-	-
Receivables:				
Due from other governmental agencies	172,716	115,346	-	34,465
Housing rehabilitation loans, net	1,175,808	-	-	-
Accrued interest	-	484,638	-	23,767
Other	-	-	-	-
Total assets	\$ 1,348,524	\$ 599,984	\$ 5,533	\$ 61,990
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 82,488	\$ 1,965	\$ -	\$ 38,223
Salaries and wages payable	9,243	664	-	-
Due to other funds	94,583	109,465	-	-
Deferred revenue	1,162,210	484,638	-	23,767
Total liabilities	1,348,524	596,732	-	61,990
Fund Balances:				
Reserved for encumbrances	44,883	17,450	-	-
Reserved for debt service	-	-	-	-
Unreserved:				
Designated:				
Specific purposes	-	-	5,533	-
Capital projects	-	-	-	-
Undesignated	(44,883)	(14,198)	-	-
Total fund balances	-	3,252	5,533	-
Total liabilities and fund balances	\$ 1,348,524	\$ 599,984	\$ 5,533	\$ 61,990

Special Revenue Funds

Multi-family Housing	Older Americans Grant	Tri-City Elders	Senior Services	Multipurpose Senior Svc. Program	Agency on Area Aging MSSP	Youth Service Center
\$ 690,420	\$ -	\$ 102,344	\$ 355,738	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	14,110	-	69,617	118,755	6,707	143,505
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 690,420</u>	<u>\$ 14,110</u>	<u>\$ 102,344</u>	<u>\$ 425,355</u>	<u>\$ 118,755</u>	<u>\$ 6,707</u>	<u>\$ 143,505</u>
\$ 6,019	\$ -	\$ 54	\$ 14,566	\$ 4,064	\$ 221	\$ 3,278
13,346	-	-	23,125	-	-	-
-	14,110	-	-	114,691	4,387	140,227
134	-	-	-	-	-	-
<u>19,499</u>	<u>14,110</u>	<u>54</u>	<u>37,691</u>	<u>118,755</u>	<u>4,608</u>	<u>143,505</u>
12,000	-	-	-	-	-	4,848
-	-	-	-	-	-	-
658,921	-	102,290	387,664	-	2,099	-
-	-	-	-	-	-	-
-	-	-	-	-	-	(4,848)
<u>670,921</u>	<u>-</u>	<u>102,290</u>	<u>387,664</u>	<u>-</u>	<u>2,099</u>	<u>-</u>
<u>\$ 690,420</u>	<u>\$ 14,110</u>	<u>\$ 102,344</u>	<u>\$ 425,355</u>	<u>\$ 118,755</u>	<u>\$ 6,707</u>	<u>\$ 143,505</u>

(Continued)

City of Fremont
Combining Balance Sheet
Non-Major Governmental Funds, Continued
June 30, 2005
(With comparative totals for June 30, 2004)

	Special Revenue Funds		
	Every Child Counts Grant	Alameda Behavioral Health Care	Measure B
ASSETS			
Cash and investments held by City	\$ 217,326	\$ -	\$ 59,639
Restricted cash and investments held by fiscal agent	-	-	-
Receivables:			
Due from other governmental agencies	37,317	15,063	178,853
Housing rehabilitation loans, net	-	-	-
Accrued interest	-	-	-
Other	-	-	-
Total assets	\$ 254,643	\$ 15,063	\$ 238,492
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 844	\$ -	\$ 48,456
Salaries and wages payable	-	-	2,305
Due to other funds	-	15,063	-
Deferred revenue	-	-	-
Total liabilities	844	15,063	50,761
Fund Balances:			
Reserved for encumbrances	3,585	-	38,252
Reserved for debt service	-	-	-
Unreserved:			
Designated:			
Specific purposes	250,214	-	149,479
Capital projects	-	-	-
Undesignated	-	-	-
Total fund balances	253,799	-	187,731
Total liabilities and fund balances	\$ 254,643	\$ 15,063	\$ 238,492

Special Revenue Funds				
Family Resource Center	Haas Grant	Cowell Grant	Integrated Waste Used Oil Grant	Urban Runoff
\$ 4,885,875	\$ 71,437	\$ 21,236	\$ -	\$ 2,272,631
-	-	-	-	-
120,168	-	-	20,691	-
-	-	-	-	-
-	-	-	-	-
108,303	-	-	-	-
<u>\$ 5,114,346</u>	<u>\$ 71,437</u>	<u>\$ 21,236</u>	<u>\$ 20,691</u>	<u>\$ 2,272,631</u>
\$ 14,955	\$ -	\$ -	\$ -	\$ 307
26,046	-	-	-	8,122
-	-	-	20,691	-
-	-	-	-	-
<u>41,001</u>	<u>-</u>	<u>-</u>	<u>20,691</u>	<u>8,429</u>
23,573	-	-	-	95,666
-	-	-	-	-
5,049,772	71,437	21,236	-	2,168,536
-	-	-	-	-
-	-	-	-	-
<u>5,073,345</u>	<u>71,437</u>	<u>21,236</u>	<u>-</u>	<u>2,264,202</u>
<u>\$ 5,114,346</u>	<u>\$ 71,437</u>	<u>\$ 21,236</u>	<u>\$ 20,691</u>	<u>\$ 2,272,631</u>

(Continued)

City of Fremont
Combining Balance Sheet
Non-Major Governmental Funds, Continued
June 30, 2005
(With comparative totals for June 30, 2004)

	Special Revenue Funds			
	Traffic Safety OTS	Abandoned Vehicle	Narcotics Asset Seizure	COPS AB3229
ASSETS				
Cash and investments held by City	\$ -	\$ -	\$ 430,799	\$ 46,065
Restricted cash and investments held by fiscal agent	-	-	32,910	-
Receivables:				
Due from other governmental agencies	25,378	70,470	25,000	-
Housing rehabilitation loans, net	-	-	-	-
Accrued interest	-	-	-	-
Other	-	-	-	-
Total assets	\$ 25,378	\$ 70,470	\$ 488,709	\$ 46,065
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ 3,407	\$ 11,991
Salaries and wages payable	-	-	3,396	-
Due to other funds	25,378	70,470	-	-
Deferred revenue	-	-	-	-
Total liabilities	25,378	70,470	6,803	11,991
Fund Balances:				
Reserved for encumbrances	-	-	-	-
Reserved for debt service	-	-	-	-
Unreserved:				
Designated:				
Specific purposes	-	-	481,906	34,074
Capital projects	-	-	-	-
Undesignated	-	-	-	-
Total fund balances	-	-	481,906	34,074
Total liabilities and fund balances	\$ 25,378	\$ 70,470	\$ 488,709	\$ 46,065

Special Revenue Funds					
Local Law Enforcement Block Grant	OCJP CLETEP Grant	CLEEP High Tech Grant	Metropolitan Medical Response System	Miscellaneous Federal Grants	Miscellaneous State Support
\$ 5,012	\$ -	\$ -	\$ 337,320	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	303,853	171,646
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	1,677
<u>\$ 5,012</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 337,320</u>	<u>\$ 303,853</u>	<u>\$ 173,323</u>
\$ -	\$ -	\$ -	\$ 5,625	\$ 294,494	\$ 442
-	-	-	-	-	-
-	-	-	-	9,359	172,881
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>5,625</u>	<u>303,853</u>	<u>173,323</u>
-	-	-	9,962	-	45,372
-	-	-	-	-	-
5,012	-	-	321,733	-	-
-	-	-	-	-	-
-	-	-	-	-	(45,372)
<u>5,012</u>	<u>-</u>	<u>-</u>	<u>331,695</u>	<u>-</u>	<u>-</u>
<u>\$ 5,012</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 337,320</u>	<u>\$ 303,853</u>	<u>\$ 173,323</u>

(Continued)

City of Fremont
Combining Balance Sheet
Non-Major Governmental Funds, Continued
June 30, 2005
(With comparative totals for June 30, 2004)

	Special Revenue Funds		Total Non-major Special Revenue Funds
	County Support for City Street	Maintenance District	
ASSETS			
Cash and investments held by City	\$ 326,208	\$ 176,929	\$ 10,008,270
Restricted cash and investments			
held by fiscal agent	-	-	32,910
Receivables:			
Due from other governmental agencies	-	-	1,643,660
Housing rehabilitation loans, net	-	-	1,175,808
Accrued interest	-	-	508,405
Other	-	-	109,980
Total assets	\$ 326,208	\$ 176,929	\$ 13,479,033
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	\$ 5,722	\$ 537,121
Salaries and wages payable	-	-	86,247
Due to other funds	-	-	791,305
Deferred revenue	-	-	1,670,749
Total liabilities	-	5,722	3,085,422
Fund Balances:			
Reserved for encumbrances	-	-	295,591
Reserved for debt service	-	-	-
Unreserved:			
Designated:			
Specific purposes	326,208	171,207	10,207,321
Capital projects	-	-	-
Undesignated	-	-	(109,301)
Total fund balances	326,208	171,207	10,393,611
Total liabilities and fund balances	\$ 326,208	\$ 176,929	\$ 13,479,033

Debt Service Funds		Total Non-major Debt Service	Capital Project Funds			
2003 & 2005 Fire General Obligation Bonds	Financing Authority		Transportation Development Act	Roberti Open Space	Interchange Construction	Vehicle Replacement
\$ 1,044,345	\$ -	\$ 1,044,345	\$ -	\$ 14,347	\$ 4,610,383	\$ 3,670,888
-	4,900,256	4,900,256	-	-	-	-
11,197	-	11,197	1,730	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 1,055,542</u>	<u>\$ 4,900,256</u>	<u>\$ 5,955,798</u>	<u>\$ 1,730</u>	<u>\$ 14,347</u>	<u>\$ 4,610,383</u>	<u>\$ 3,670,888</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 569
-	-	-	-	-	-	-
-	-	-	1,730	-	-	-
-	-	-	-	-	-	-
-	-	-	1,730	-	-	569
-	-	-	-	14,400	-	272,264
1,055,542	4,900,256	5,955,798	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	4,610,383	3,398,055
-	-	-	-	(53)	-	-
<u>1,055,542</u>	<u>4,900,256</u>	<u>5,955,798</u>	<u>-</u>	<u>14,347</u>	<u>4,610,383</u>	<u>3,670,319</u>
<u>\$ 1,055,542</u>	<u>\$ 4,900,256</u>	<u>\$ 5,955,798</u>	<u>\$ 1,730</u>	<u>\$ 14,347</u>	<u>\$ 4,610,383</u>	<u>\$ 3,670,888</u>

(Continued)

City of Fremont
Combining Balance Sheet
Non-Major Governmental Funds, Continued
June 30, 2005
(With comparative totals for June 30, 2004)

	Capital Projects Funds			
	Capital Improvement	Capital Improvement - Outside Sources	Measure B	Intermodal Surface Transportation Efficiency Act
ASSETS				
Cash and investments held by City	\$ 12,052,400	\$ 4,272,770	\$ 6,045,119	\$ -
Restricted cash and investments held by fiscal agent	-	-	-	-
Receivables:				
Due from other governmental agencies	-	-	357,334	241,722
Housing rehabilitation loans, net	-	-	-	-
Accrued interest	-	-	-	-
Other	-	82,798	-	-
Total assets	\$ 12,052,400	\$ 4,355,568	\$ 6,402,453	\$ 241,722
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 150,089	\$ 12,346	\$ 65,700	\$ 1,769
Salaries and wages payable	-	-	-	-
Due to other funds	-	-	-	239,953
Deferred revenue	-	-	-	-
Total liabilities	150,089	12,346	65,700	241,722
Fund Balances:				
Reserved for encumbrances	4,550,213	679,965	233,050	326,126
Reserved for debt service	-	-	-	-
Unreserved:				
Designated:				
Specific purposes	-	-	-	-
Capital projects	7,352,098	3,663,257	6,103,703	-
Undesignated	-	-	-	(326,126)
Total fund balances	11,902,311	4,343,222	6,336,753	-
Total liabilities and fund balances	\$ 12,052,400	\$ 4,355,568	\$ 6,402,453	\$ 241,722

			Total		
Traffic	2003 & 2005		Non-major		
System	Fire General		Capital	Total Non-major	
Management	Obligation	Financing	Projects	Governmental Funds	
	Bonds	Authority	Funds	2005	2004
\$ -	\$ 24,725,547	\$ -	\$ 55,391,454	\$ 66,444,069	\$ 44,552,000
-	-	3,991,630	3,991,630	8,924,796	14,000,308
39,455	-	-	640,241	2,295,098	4,259,063
-	-	-	-	1,175,808	1,147,254
-	125,381	-	125,381	633,786	453,778
-	-	-	82,798	192,778	109,259
<u>\$ 39,455</u>	<u>\$ 24,850,928</u>	<u>\$ 3,991,630</u>	<u>\$ 60,231,504</u>	<u>\$ 79,666,335</u>	<u>\$ 64,521,662</u>
\$ 125	\$ 364,134	\$ -	\$ 594,732	\$ 1,131,853	\$ 1,199,546
-	-	-	-	86,247	69,463
39,330	-	-	281,013	1,072,318	2,987,150
-	-	-	-	1,670,749	1,376,887
<u>39,455</u>	<u>364,134</u>	<u>-</u>	<u>875,745</u>	<u>3,961,167</u>	<u>5,633,046</u>
-	5,224,615	-	11,300,633	11,596,224	12,341,743
-	-	-	-	5,955,798	4,199,628
-	-	-	-	10,207,321	6,147,521
-	19,262,179	3,991,630	48,381,305	48,381,305	33,136,137
-	-	-	(326,179)	(435,480)	3,063,587
<u>-</u>	<u>24,486,794</u>	<u>3,991,630</u>	<u>59,355,759</u>	<u>75,705,168</u>	<u>58,888,616</u>
<u>\$ 39,455</u>	<u>\$ 24,850,928</u>	<u>\$ 3,991,630</u>	<u>\$ 60,231,504</u>	<u>\$ 79,666,335</u>	<u>\$ 64,521,662</u>

(Concluded)

City of Fremont

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Non-Major Governmental Funds

For the year ended June 30, 2005

(With comparative totals for the year ended June 30, 2004)

	Special Revenue Funds			
	Community Development Block Grant	HOME Grant	HUD/HOPE Grant	HUD/SHP Grant
REVENUES:				
Property tax	\$ -	\$ -	\$ -	\$ -
Charges for services	-	-	-	-
Intergovernmental	1,538,838	262,595	-	342,090
Investment earnings	-	-	96	-
Other	329,764	-	-	-
Total revenues	1,868,602	262,595	96	342,090
EXPENDITURES:				
Current:				
Police services	-	-	-	-
Fire services	-	-	-	-
Human services	-	-	-	-
Capital assets maintenance and operations	-	-	-	-
Community development and environmental services	1,783,987	230,215	-	340,667
Capital outlay	23,012	-	-	-
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	1,806,999	230,215	-	340,667
REVENUES OVER (UNDER) EXPENDITURES	61,603	32,380	96	1,423
OTHER FINANCING SOURCES (USES):				
Debt proceeds	-	-	-	-
Premium on debt issuance	-	-	-	-
Transfers in	2,109	432	-	-
Transfers out	(63,712)	(29,560)	-	(1,423)
Payment to escrow agent	-	-	-	-
Total other financing sources (uses)	(61,603)	(29,128)	-	(1,423)
Net change in fund balances	-	3,252	96	-
FUND BALANCES:				
Beginning of year	-	-	5,437	-
End of year	\$ -	\$ 3,252	\$ 5,533	\$ -

Special Revenue Funds

Multi-family Housing	Older Americans Grant	Tri-City Elders	Senior Services	Multipurpose Senior Svc. Program	Agency on Area Aging MSSP	Youth Service Center
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
118,020	-	2,330	173,706	-	-	-
-	44,741	-	66,455	233,598	120,656	408,767
19,317	-	2,275	464	-	-	-
-	-	16,656	211,467	-	1,598	-
<u>137,337</u>	<u>44,741</u>	<u>21,261</u>	<u>452,092</u>	<u>233,598</u>	<u>122,254</u>	<u>408,767</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
251,207	44,741	23,833	662,109	233,598	118,579	408,767
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>251,207</u>	<u>44,741</u>	<u>23,833</u>	<u>662,109</u>	<u>233,598</u>	<u>118,579</u>	<u>408,767</u>
(113,870)	-	(2,572)	(210,017)	-	3,675	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	257,396	-	-	-
(29,913)	-	-	(4,449)	-	(3,675)	-
-	-	-	-	-	-	-
<u>(29,913)</u>	<u>-</u>	<u>-</u>	<u>252,947</u>	<u>-</u>	<u>(3,675)</u>	<u>-</u>
(143,783)	-	(2,572)	42,930	-	-	-
814,704	-	104,862	344,734	-	2,099	-
<u>\$ 670,921</u>	<u>\$ -</u>	<u>\$ 102,290</u>	<u>\$ 387,664</u>	<u>\$ -</u>	<u>\$ 2,099</u>	<u>\$ -</u>

(Continued)

City of Fremont

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Non-Major Governmental Funds, Continued

For the year ended June 30, 2005

(With comparative totals for the year ended June 30, 2004)

	Special Revenue Funds		
	Every Child Counts Grant	Alameda Behavioral Health Care	Measure B
REVENUES:			
Property tax	\$ -	\$ -	\$ -
Charges for services	-	-	3,835
Intergovernmental	75,000	127,311	706,808
Investment earnings	-	-	6,456
Other	258,029	-	-
Total revenues	333,029	127,311	717,099
EXPENDITURES:			
Current:			
Police services	-	-	-
Fire services	-	-	-
Human services	80,700	121,725	819,500
Capital assets maintenance and operations	-	-	-
Community development and environmental services	-	-	-
Capital outlay	-	-	21,200
Debt service:			
Principal	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	80,700	121,725	840,700
REVENUES OVER (UNDER) EXPENDITURES	252,329	5,586	(123,601)
OTHER FINANCING SOURCES (USES):			
Debt proceeds	-	-	-
Premium on debt issuance	-	-	-
Transfers in	-	-	-
Transfers out	-	(5,586)	(18,000)
Payment to escrow agent	-	-	-
Total other financing sources (uses)	-	(5,586)	(18,000)
Net change in fund balances	252,329	-	(141,601)
FUND BALANCES:			
Beginning of year	1,470	-	329,332
End of year	\$ 253,799	\$ -	\$ 187,731

Special Revenue Funds				
Family Resource Center	Haas Grant	Cowell Grant	Integrated Waste Used Oil Grant	Urban Runoff
\$ -	\$ -	\$ -	\$ -	\$ -
772,371	-	-	-	1,296,907
134,537	-	-	66,853	-
117,298	1,012	483	27	-
92,040	70,000	87,243	-	-
<u>1,116,246</u>	<u>71,012</u>	<u>87,726</u>	<u>66,880</u>	<u>1,296,907</u>
-	-	-	-	-
-	-	-	-	-
444,757	30,489	72,700	-	-
-	-	-	-	3,112
202,305	-	-	66,880	811,654
-	-	-	-	-
-	-	-	-	-
40,542	-	-	-	-
<u>687,604</u>	<u>30,489</u>	<u>72,700</u>	<u>66,880</u>	<u>814,766</u>
428,642	40,523	15,026	-	482,141
-	-	-	-	-
-	-	-	-	-
137,629	-	-	-	-
(762,315)	(500)	-	-	(104,723)
-	-	-	-	-
<u>(624,686)</u>	<u>(500)</u>	<u>-</u>	<u>-</u>	<u>(104,723)</u>
(196,044)	40,023	15,026	-	377,418
5,269,389	31,414	6,210	-	1,886,784
<u>\$ 5,073,345</u>	<u>\$ 71,437</u>	<u>\$ 21,236</u>	<u>\$ -</u>	<u>\$ 2,264,202</u>

(Continued)

City of Fremont

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Non-Major Governmental Funds, Continued

For the year ended June 30, 2005

(With comparative totals for the year ended June 30, 2004)

	Special Revenue Funds			
	Traffic Safety OTS	Abandoned Vehicle	Narcotics Asset Seizure	COPS AB3229
REVENUES:				
Property tax	\$ -	\$ -	\$ -	\$ -
Charges for services	-	-	-	-
Intergovernmental	42,363	147,387	153,817	307,014
Investment earnings	-	-	7,101	3,339
Other	-	-	-	-
Total revenues	42,363	147,387	160,918	310,353
EXPENDITURES:				
Current:				
Police services	42,363	147,387	150,753	454,255
Fire services	-	-	-	-
Human services	-	-	-	-
Capital assets maintenance and operations	-	-	-	-
Community development and environmental services	-	-	-	-
Capital outlay	-	-	35,179	-
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	42,363	147,387	185,932	454,255
REVENUES OVER (UNDER) EXPENDITURES	-	-	(25,014)	(143,902)
OTHER FINANCING SOURCES (USES):				
Debt proceeds	-	-	-	-
Premium on debt issuance	-	-	-	-
Transfers in	-	-	50,000	-
Transfers out	-	-	(573)	-
Payment to escrow agent	-	-	-	-
Total other financing sources (uses)	-	-	49,427	-
Net change in fund balances	-	-	24,413	(143,902)
FUND BALANCES:				
Beginning of year	-	-	457,493	177,976
End of year	\$ -	\$ -	\$ 481,906	\$ 34,074

Special Revenue Funds					
Local Law Enforcement Block Grant	OCJP CLETEP Grant	CLEEP High Tech Grant	Metropolitan Medical Response System	Miscellaneous Federal Grants	Miscellaneous State Support
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
31,495	-	-	589,206	370,776	670,458
939	243	324	5,574	-	-
-	-	-	-	-	-
32,434	243	324	594,780	370,776	670,458
98,518	16,971	12,316	-	38,011	207,865
-	-	-	313,765	14,000	-
-	-	-	-	24,272	-
-	-	-	-	-	462,593
-	-	-	-	230,766	-
-	-	-	100,458	63,727	-
-	-	-	-	-	-
-	-	-	-	-	-
98,518	16,971	12,316	414,223	370,776	670,458
(66,084)	(16,728)	(11,992)	180,557	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
(66,084)	(16,728)	(11,992)	180,557	-	-
71,096	16,728	11,992	151,138	-	-
\$ 5,012	\$ -	\$ -	\$ 331,695	\$ -	\$ -

(Continued)

City of Fremont

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Non-Major Governmental Funds, Continued

For the year ended June 30, 2005

(With comparative totals for the year ended June 30, 2004)

	Special Revenue Funds		Total Non-major Special Revenue Funds
	County Support for City Streets	Maintenance District	
REVENUES:			
Property tax	\$ -	\$ -	\$ -
Charges for services	-	120,935	2,488,104
Intergovernmental	-	-	6,440,765
Investment earnings	11,011	-	175,959
Other	-	-	1,066,797
Total revenues	11,011	120,935	10,171,625
EXPENDITURES:			
Current:			
Police services	-	-	1,168,439
Fire services	-	-	327,765
Human services	-	-	3,336,977
Capital assets maintenance and operations	15,313	82,776	563,794
Community development and environmental services	-	-	3,666,474
Capital outlay	-	-	243,576
Debt service:			
Principal	-	-	-
Interest and fiscal charges	-	-	40,542
Total expenditures	15,313	82,776	9,347,567
REVENUES OVER (UNDER) EXPENDITURES	(4,302)	38,159	824,058
OTHER FINANCING SOURCES (USES):			
Debt proceeds	-	-	-
Premium on debt issuance	-	-	-
Transfers in	-	-	447,566
Transfers out	-	(4,138)	(1,028,567)
Payment to escrow agent	-	-	-
Total other financing sources (uses)	-	(4,138)	(581,001)
Net change in fund balances	(4,302)	34,021	243,057
FUND BALANCES:			
Beginning of year	330,510	137,186	10,150,554
End of year	\$ 326,208	\$ 171,207	\$ 10,393,611

Debt Service Funds		Total Non-major Debt Service Fund	Capital Projects Funds			
2003 & 2005 Fire General Obligation Bond	Financing Authority		Transportation Development Act	Roberti Open Space	Interchange Construction	Vehicle Replacement
\$ 628,086	\$ -	\$ 628,086	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
6,195	-	6,195	26,497	-	-	-
8,488	212,590	221,078	-	290	75,608	71,473
389	-	389	-	-	-	83,355
643,158	212,590	855,748	26,497	290	75,608	154,828
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	26,497	-	-	36,342
-	-	-	-	-	-	-
-	-	-	-	-	-	471,858
-	-	-	-	-	-	-
180,000	2,975,000	3,155,000	-	-	-	-
446,368	3,272,903	3,719,271	-	-	-	-
626,368	6,247,903	6,874,271	26,497	-	-	508,200
16,790	(6,035,313)	(6,018,523)	-	290	75,608	(353,372)
-	-	-	-	-	-	-
362,917	-	362,917	-	-	-	-
-	7,411,776	7,411,776	-	-	892,182	1,125,096
-	-	-	-	-	-	-
-	-	-	-	-	-	-
362,917	7,411,776	7,774,693	-	-	892,182	1,125,096
379,707	1,376,463	1,756,170	-	290	967,790	771,724
675,835	3,523,793	4,199,628	-	14,057	3,642,593	2,898,595
\$ 1,055,542	\$ 4,900,256	\$ 5,955,798	\$ -	\$ 14,347	\$ 4,610,383	\$ 3,670,319

(Continued)

City of Fremont

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Non-Major Governmental Funds, Continued

For the year ended June 30, 2005

(With comparative totals for the year ended June 30, 2004)

	Capital Projects Funds			
	Capital Improvement	Capital Improvement - Outside Sources	Measure B	Intermodal Surface Transportation Efficiency Act
REVENUES:				
Property tax	\$ -	\$ -	\$ -	\$ -
Charges for services	-	-	-	-
Intergovernmental	-	-	2,226,055	493,823
Investment earnings	284,038	-	116,171	-
Other	-	41,850	-	-
Total revenues	284,038	41,850	2,342,226	493,823
EXPENDITURES:				
Current:				
Police services	-	-	-	-
Fire services	-	-	-	-
Human services	-	-	-	-
Capital assets maintenance and operations	479,172	993,135	899,698	480,735
Community development and environmental services	-	-	-	-
Capital outlay	2,185,119	116,833	-	13,088
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	2,664,291	1,109,968	899,698	493,823
REVENUES OVER (UNDER) EXPENDITURES	(2,380,253)	(1,068,118)	1,442,528	-
OTHER FINANCING SOURCES (USES):				
Debt proceeds	-	-	-	-
Premium on debt issuance	-	-	-	-
Transfers in	3,844,351	-	-	-
Transfers out	-	-	-	-
Payment to escrow agent	-	-	-	-
Total other financing sources (uses)	3,844,351	-	-	-
Net change in fund balances	1,464,098	(1,068,118)	1,442,528	-
FUND BALANCES:				
Beginning of year	10,438,213	5,411,340	4,894,225	-
End of year	<u>\$ 11,902,311</u>	<u>\$ 4,343,222</u>	<u>\$ 6,336,753</u>	<u>\$ -</u>

Traffic System Management	2003 & 2005 Fire General Obligation Bonds	Financing Authority	Total Non-major Capital Projects Funds	Total Non-major Governmental Funds	
				2005	2004
\$ -	\$ -	\$ -	\$ -	\$ 628,086	\$ 681,193
-	-	-	-	2,488,104	2,483,893
56,811	-	-	2,803,186	9,250,146	15,938,462
-	265,853	119,197	932,630	1,329,667	930,718
-	-	-	125,205	1,192,391	1,073,920
56,811	265,853	119,197	3,861,021	14,888,394	21,108,186
-	-	-	-	1,168,439	744,182
-	-	-	-	327,765	464,122
-	-	-	-	3,336,977	3,056,994
56,811	-	-	2,972,390	3,536,184	6,032,652
-	-	-	-	3,666,474	3,328,581
-	7,252,260	3,271,315	13,310,473	13,554,049	18,079,968
-	-	-	-	3,155,000	3,540,000
-	322,500	-	322,500	4,082,313	4,309,487
56,811	7,574,760	3,271,315	16,605,363	32,827,201	39,555,986
-	(7,308,907)	(3,152,118)	(12,744,342)	(17,938,807)	(18,447,800)
-	25,000,000	-	25,000,000	25,000,000	31,930,000
-	-	-	-	362,917	-
-	-	38	5,861,667	13,721,009	6,891,656
-	-	(3,300,000)	(3,300,000)	(4,328,567)	(1,398,327)
-	-	-	-	-	(20,450,000)
-	25,000,000	(3,299,962)	27,561,667	34,755,359	16,973,329
-	17,691,093	(6,452,080)	14,817,325	16,816,552	(1,474,471)
-	6,795,701	10,443,710	44,538,434	58,888,616	60,363,087
\$ -	\$ 24,486,794	\$ 3,991,630	\$ 59,355,759	\$ 75,705,168	\$ 58,888,616

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PROPRIETARY FUNDS

City of Fremont
Combining Statement of Net Assets
Proprietary Fund Type
June 30, 2005
(With comparative totals for June 30, 2004)

	Internal Service Funds			
			Totals	
	Risk Management	Information Technology	2005	2004
ASSETS				
Cash and investments held by City	\$ 6,581,944	\$ (114,226)	\$ 6,467,718	\$ 3,785,275
Receivables:				
Other	-	191,825	191,825	185,515
Depreciable assets	-	6,868,210	6,868,210	8,334,620
Less accumulated depreciation	-	(3,102,636)	(3,102,636)	(3,811,374)
Land held for resale	2,821,430	-	2,821,430	2,821,430
Total assets	9,403,374	3,843,173	13,246,547	11,315,466
LIABILITIES				
Accounts payable	24,608	52,413	77,021	233,168
Salaries and wages payable	73,766	100,247	174,013	115,844
Claims payable	9,305,000	-	9,305,000	8,246,000
Other accrued liabilities	-	-	-	2
Total liabilities	9,403,374	152,660	9,556,034	8,595,014
NET ASSETS				
Invested in capital assets	-	3,765,574	3,765,574	4,523,246
Unrestricted	-	(75,061)	(75,061)	(1,802,794)
Total net assets	\$ -	\$ 3,690,513	\$ 3,690,513	\$ 2,720,452

City of Fremont

Combining Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Fund Type

For the year ended June 30, 2005

(With comparative totals for the year ended June 30, 2004)

	Internal Service Funds			
	Risk Management	Information Technology	Totals	
			2005	2004
OPERATING REVENUES:				
Charges for services	\$ 6,303,770	\$ 3,622,145	\$ 9,925,915	\$ 7,926,288
Other	53,813	12,546	66,359	77,062
Total operating revenues	6,357,583	3,634,691	9,992,274	8,003,350
OPERATING EXPENSES:				
Salaries and wages	275,438	2,155,303	2,430,741	2,376,717
Insurance premiums	973,957	-	973,957	709,484
Provision for claim losses	4,775,050	-	4,775,050	6,474,337
Claims administration	277,908	-	277,908	262,678
Materials and supplies	133,368	1,317,663	1,451,031	688,345
Depreciation	-	871,444	871,444	179,463
Other	5,753	48,324	54,077	45,816
Total operating expenses	6,441,474	4,392,734	10,834,208	10,736,840
OPERATING INCOME (LOSS)	(83,891)	(758,043)	(841,934)	(2,733,490)
NONOPERATING REVENUES (EXPENSES):				
Investment income	73,495	1,182	74,677	35,595
Total nonoperating revenues (expenses)	73,495	1,182	74,677	35,595
Contributed capital assets	-	15,416	15,416	-
Transfers in	2,083,383	122,044	2,205,427	34,221
Transfers out	-	(483,525)	(483,525)	(451,667)
INCREASE (DECREASE) IN NET ASSETS	2,072,987	(1,102,926)	970,061	(3,115,341)
NET ASSETS:				
Beginning of year	(2,072,987)	4,793,439	2,720,452	5,835,793
End of year	\$ -	\$ 3,690,513	\$ 3,690,513	\$ 2,720,452

City of Fremont
Combining Statement of Cash Flows
Proprietary Fund Type
For the year ended June 30, 2005
(With comparative totals for the year ended June 30, 2004)

	Internal Service Funds			
			Totals	
	Risk Management	Information Technology	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from users	\$ 6,307,515	\$ 3,612,090	\$ 9,919,605	\$ 7,970,876
Other revenue	53,813	12,546	66,359	88,241
Less: Payments to suppliers	(1,485,911)	(1,373,132)	(2,859,043)	(1,624,988)
Payments for employees services	(246,415)	(2,126,157)	(2,372,572)	(2,394,333)
Payments for claims paid	(3,716,050)	-	(3,716,050)	(3,964,901)
Payments to others	(5,755)	(48,324)	(54,079)	(39,699)
Net cash provided (used) by operating activities	907,197	77,023	984,220	35,196
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest on cash and investments	73,495	1,182	74,677	35,595
Net cash provided by investing activities	73,495	1,182	74,677	35,595
CASH FLOWS FROM CAPITAL ACTIVITIES:				
Acquisition of capital assets	-	(98,356)	(98,356)	(480,719)
Net cash provided (used) by capital activities	-	(98,356)	(98,356)	(480,719)
CASH FLOWS FROM NON CAPITAL ACTIVITIES:				
Transfers in	2,083,383	122,044	2,205,427	34,221
Transfers out	-	(483,525)	(483,525)	(451,667)
Net cash provided (used) by noncapital activities	2,083,383	(361,481)	1,721,902	(417,446)
Net increase (decrease) in cash and cash investments	3,064,075	(381,632)	2,682,443	(827,374)
CASH AND INVESTMENTS:				
Beginning of year	3,517,869	267,406	3,785,275	4,612,649
End of year	\$ 6,581,944	\$ (114,226)	\$ 6,467,718	\$ 3,785,275
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ (83,891)	\$ (758,043)	\$ (841,934)	\$ (2,733,490)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	-	871,444	871,444	179,463
Changes in assets and liabilities:				
Accounts receivable	3,745	(10,055)	(6,310)	44,588
Accounts payable	(100,678)	(55,469)	(156,147)	41,688
Salaries and wages payable	28,985	28,794	57,779	(5,502)
Compensated absences	38	352	390	(935)
Claims payable	1,059,000	-	1,059,000	2,509,436
Other accrued liabilities	(2)	-	(2)	(52)
Net cash provided (used) by operating activities	\$ 907,197	\$ 77,023	\$ 984,220	\$ 35,196

FIDUCIARY FUND FINANCIAL STATEMENTS

Agency Funds are used to account for assets held by the City on behalf of others as their agent. Agency funds are custodial in nature (i.e., assets equal liabilities) and do not involve measurement of results of operations. Specific agency funds are as follows:

Local Improvement Districts - Special assessment bonds were issued by local improvement districts under various public improvement acts of the State of California and are secured by liens against properties deemed to have been benefited by the improvements for which the bonds were issued. The City acts as an agent in collecting the assessments from the property owners, forwarding the collections to bondholders, and initiating foreclosure proceedings when necessary. This fund also accounts for the City of Fremont Community Facilities District No. 1. \$30 million of Series 2001 bonds that were issued to finance the first phase of public improvements at Pacific Commons, which will include the extension of Cushing Parkway, a priority item for the City of Fremont. The bonds have a series of maturities of up to 30 years and have a weighted average fixed interest rate of 6.20%.

Performance Bonds, Deposits and Confiscated Assets - This fund accounts for bonds and deposits received in conjunction with construction activity within the City, assets confiscated by the police and other deposits, held by the City in a fiduciary capacity.

Tri-City Waste Facility Financing Authority - This fund accounts for the revenue bonds issued by the cities of Fremont, Newark and Union City to pay for the cities' share of the future landfill closing costs of the Durham Road Landfill.

Tri-City Waste Disposal Authority - This fund provides for the administration of funds collected by the Tri-City Waste Disposal Authority, which exists to administer disposal agreements for solid waste generated in the cities of Newark, Union City and Fremont.

Southern Alameda County GIS - This fund accounts for monies collected from participating agencies for the administration of the program. The City of Fremont is the administrator of the Geographic Information System which serves the participating agencies. The program operates under a JPA that was approved by the City of Fremont, City of Union City, City of Newark, Union Sanitary District and Alameda County Water District.

City of Fremont
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005
(With comparative totals for June 30, 2004)

	Local Improvement Districts	Performance Bonds, Deposits and Confiscated Assets	Tri-City Waste Facility Financing Authority
<u>All Agency Funds</u>			
Assets:			
Cash and investments held by City	\$ 10,765,824	\$ 1,018,069	\$ 332,820
Restricted cash and investments held by City	2,040,060	-	-
Restricted cash and investments held by fiscal agent	21,355,537	20,169	744,428
Interest receivable	37,065	-	-
Accounts receivable	-	-	-
Other receivables	19,817	-	41,533
Total assets	<u>\$ 34,218,303</u>	<u>\$ 1,038,238</u>	<u>\$ 1,118,781</u>
Liabilities:			
Accounts payable	\$ -	\$ 22,981	\$ -
Deposits	34,218,303	1,015,257	1,118,781
Total liabilities	<u>\$ 34,218,303</u>	<u>\$ 1,038,238</u>	<u>\$ 1,118,781</u>

Tri-City Waste Disposal Authority	Southern Alameda County GIS	Total	
		2005	2004
\$ 45,316	\$ 5,898	\$ 12,167,927	\$ 14,512,783
-	-	2,040,060	-
-	-	22,120,134	25,482,346
-	-	37,065	-
-	29,172	29,172	-
-	-	61,350	89,105
<u>\$ 45,316</u>	<u>\$ 35,070</u>	<u>\$ 36,455,708</u>	<u>\$ 40,084,234</u>
\$ -	\$ 21,442	\$ 44,423	\$ 35,604
45,316	13,628	36,411,285	40,048,630
<u>\$ 45,316</u>	<u>\$ 35,070</u>	<u>\$ 36,455,708</u>	<u>\$ 40,084,234</u>

City of Fremont

Statement of Changes in Assets and Liabilities

Agency Funds

For the year ended June 30, 2005

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
<u>Local Improvement Districts</u>				
Assets:				
Cash and investments held by City	\$ 13,097,911	\$ 9,869,465	\$ (12,201,552)	\$ 10,765,824
Restricted cash and investments held by City	-	2,040,060	-	2,040,060
Restricted cash and investments held by fiscal agent	24,697,023	50,085,287	(53,426,773)	21,355,537
Interest Receivable	16,060	875,133	(854,128)	37,065
Other receivables	3,705	1,703,842	(1,687,730)	19,817
Total assets	\$ 37,814,699	\$ 64,573,787	\$ (68,170,183)	\$ 34,218,303
Liabilities:				
Deposits	\$ 37,814,699	\$ 77,227,016	\$ (80,823,412)	\$ 34,218,303
Total liabilities	\$ 37,814,699	\$ 77,227,016	\$ (80,823,412)	\$ 34,218,303
<u>Performance Bonds, Deposits and Confiscated Assets</u>				
Assets:				
Cash and investments held by City	\$ 1,058,025	\$ 341,018	\$ (380,974)	\$ 1,018,069
Restricted cash and investments held by fiscal agent	20,076	93	-	20,169
Total assets	\$ 1,078,101	\$ 341,111	\$ (380,974)	\$ 1,038,238
Liabilities:				
Accounts payable	\$ 33,011	\$ 244,439	\$ (254,469)	\$ 22,981
Deposits	1,045,090	340,977	(370,810)	1,015,257
Total liabilities	\$ 1,078,101	\$ 585,416	\$ (625,279)	\$ 1,038,238
<u>Tri-City Waste Facility Financing Authority</u>				
Assets:				
Cash and investments held by City	\$ 313,601	\$ 723,453	\$ (704,234)	\$ 332,820
Restricted cash and investments held by fiscal agent	765,247	888,541	(909,360)	744,428
Other receivables	41,312	41,533	(41,312)	41,533
Total assets	\$ 1,120,160	\$ 1,653,527	\$ (1,654,906)	\$ 1,118,781
Liabilities:				
Deposits	\$ 1,120,160	\$ 1,384,849	\$ (1,386,228)	\$ 1,118,781
Total liabilities	\$ 1,120,160	\$ 1,384,849	\$ (1,386,228)	\$ 1,118,781
<u>Tri-City Waste Disposal Authority</u>				
Assets:				
Cash and investments held by City	\$ 43,246	\$ 2,602	\$ (532)	\$ 45,316
Total assets	\$ 43,246	\$ 2,602	\$ (532)	\$ 45,316
Liabilities:				
Deposits	\$ 43,246	\$ 2,070	\$ -	\$ 45,316
Total liabilities	\$ 43,246	\$ 2,070	\$ -	\$ 45,316

(Continued)

City of Fremont
Statement of Changes in Assets and Liabilities
Agency Funds, Continued
For the year ended June 30, 2005

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
<u>Southern Alameda County GIS</u>				
Assets:				
Cash and investments held by City	\$ -	\$ 73,834	\$ (67,936)	\$ 5,898
Accounts receivable	28,028	29,172	(28,028)	29,172
Total assets	\$ 28,028	\$ 103,006	\$ (95,964)	\$ 35,070
Liabilities:				
Accounts payable	\$ 2,593	\$ 26,505	\$ (7,656)	\$ 21,442
Deposits	25,435	-	(11,807)	13,628
Total liabilities	\$ 28,028	\$ 26,505	\$ (19,463)	\$ 35,070

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STATISTICAL SECTION

City of Fremont

General Governmental Revenues by Source

June 30, 2005

Last Ten Fiscal Years

(Unaudited)

Fiscal Year	Taxes and Franchises	Licenses and Permits	Fines and Forfeitures	Inter-Governmental	Charges for Services	Use of Money and Property
1995-1996	\$ 84,028,007	\$ 4,503,151	\$ 481,294	\$ 8,771,355	\$ 9,718,270	\$ 7,944,731
1996-1997	96,436,308	4,936,600	460,324	14,440,090	10,630,863	8,931,578
1997-1998	106,604,736	5,410,263	507,081	10,625,848	10,591,442	11,226,970
1998-1999	110,363,197	4,604,626	1,010,907	6,468,190	11,031,711	10,542,611
1999-2000	108,016,305	4,943,786	1,198,190	26,988,249	9,405,373	20,516,063
2000-2001	123,009,461	4,771,437	2,006,225	33,148,984	4,891,485	25,098,941
					Motor Vehicle	
	Property Tax	Sales Tax	Business Tax	Other Taxes	In Lieu	Impact Fees
2001-2002	\$ 58,062,912	\$ 29,195,816	\$ 5,655,770	\$ 3,161,945	\$ 11,568,423	\$ 2,916,140
2002-2003	60,328,147	28,202,974	5,599,379	2,895,600	12,014,183	2,687,489
2003-2004	63,385,957	26,796,489	5,323,827	3,380,411	9,541,508	6,987,670
2004-2005	61,790,662	30,619,014	6,092,081	3,802,272	15,780,426	8,867,917

Includes all governmental fund types; does not include special assessment collections.

During the fiscal year ended June 30, 2002, the City changed its revenue classifications to be more informative.

Table 1

Other		Total	
\$	2,305,550	\$	117,752,358
	1,570,562		137,406,325
	1,406,420		146,372,760
	6,849,649		150,870,891
	877,162		171,945,128
	3,699,786		196,626,319

Franchises		Charges for Services		Intergovernmental		Investment Earnings		Other		Total	
\$	7,466,757	\$	19,856,637	\$	14,485,284	\$	13,739,916	\$	3,178,134	\$	169,287,734
	6,872,912		21,320,438		19,716,307		10,045,155		730,203		170,412,787
	7,003,922		24,768,526		20,985,273		3,403,310		1,779,007		173,355,900
	7,546,775		27,389,159		14,157,861		7,229,477		2,394,707		185,670,351

City of Fremont
General Governmental Expenditures by Function
June 30, 2005
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	General Government	Public Safety	Health and Human Services	Capital Assets Maintenance and Operations	
				City	Assessment Districts
1995-1996	\$ 7,244,853	\$ 41,928,850	\$ 3,153,944	\$ 19,300,527	\$ 11,646
1996-1997	8,610,843	46,087,370	2,774,125	27,673,064	167,602
1997-1998	9,420,037	48,571,610	2,903,475	31,702,587	66,893
1998-1999	9,564,525	52,550,568	2,895,775	31,841,769	66,600
1999-2000	11,290,308	54,939,545	5,288,882	30,562,549	73,473
2000-2001	15,423,348	53,957,724	4,287,574	54,440,841	70,895
2001-2002	11,981,513	62,972,267	4,752,837	38,129,953	93,951
2002-2003	12,019,481	59,309,934	5,685,116	34,356,219	96,272
2003-2004	10,270,078	60,986,884	5,480,620	31,738,936	99,484
2004-2005	10,757,407	69,009,550	5,947,640	29,033,067	82,776

Includes all governmental fund types; excludes debt service expenditures for special assessments

¹ Includes expenditures of \$21,275,000 for the refunding of 1991 and 1993 Certificates of Participation

² Includes expenditures of \$21,719,059 for the refunding of 1993 Certificates of Participation

Table 2

Recreation and Leisure Services	Community Development	Capital Outlay	Inter- Governmental	Debt Service	Total
\$ 4,536,253	\$ 7,116,830	\$ 16,957,160	\$ 3,574,620	\$ 5,774,850	\$ 109,599,533
4,062,656	10,366,676	12,736,234	4,147,256	6,238,266	122,864,092
4,495,257	14,268,045	9,557,224	2,195,793	29,589,378 ¹	152,770,299
4,417,485	9,532,603	34,767,765	2,561,063	29,260,552 ²	177,458,705
4,355,297	17,305,194	16,402,910	5,968,676	19,831,871	166,018,705
5,121,053	39,391,274	5,440,683	8,230,548	10,464,970	196,828,910
5,441,694	26,440,166	16,999,390	7,405,599	11,238,944	185,456,314
5,324,337	29,300,150	29,113,450	6,371,857	12,926,598	194,503,414
5,201,139	29,818,864	32,971,268	8,940,670	14,631,015	200,138,958
4,825,523	34,329,281	23,315,029	9,761,863	14,090,443	201,152,579

City of Fremont
Property Tax Assessed Values, Levies and Collections
June 30, 2005
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Gross Assessed Value ¹	Net Assessed Value ¹	Operating Tax Rate Per \$100	Total Tax Levy ¹	Current Tax Collections
1995-1996	\$ 14,626,291,854	\$ 14,250,611,862	1.000	\$ 20,184,395	\$ 18,397,050
1996-1997	15,499,780,352	15,120,017,021	1.000	21,087,526	19,434,230
1997-1998	16,457,063,825	16,065,956,513	1.000	22,876,216	22,394,531
1998-1999	18,086,444,873	17,739,384,273	1.000	25,200,446	24,783,031
1999-2000	19,738,791,092	19,191,155,316	1.000	24,419,920	24,419,920
2000-2001	21,302,269,064	20,738,822,048	1.000	26,525,016	28,663,957
2001-2002	23,488,463,488	22,900,425,051	1.000	31,962,996	30,260,493
2002-2003	24,637,985,028	24,039,243,602	1.000	30,888,453	31,222,911
2003-2004	25,789,124,884	25,185,580,713	1.000	34,570,844	33,488,552
2004-2005	26,794,975,748	26,158,995,876	1.000	33,849,967	31,843,722

¹ Source: City of Fremont Finance Department, Treasury Division, and Alameda County Auditor - Controller

² Includes interest and penalty remittances

Table 3

Percent of Levy Collected	Delinquent Tax Collections ²	Total Tax Collections	Percent of Levy Collected
91.14%	\$ 1,075,588	\$ 19,472,638	96.47%
92.16%	950,690	20,384,920	96.67%
97.89%	1,091,086	23,485,617	102.66%
98.34%	847,888	25,630,919	101.71%
100.00%	3,521,224	27,941,144	114.42%
108.06%	603,092	29,267,049	110.34%
94.67%	732,220	30,992,713	96.96%
101.08%	1,077,741	32,300,652	104.57%
96.87%	2,436,537	35,925,089	103.92%
94.07%	2,763,862	34,607,584	102.24%

City of Fremont**Table 4****Property Tax Rates - Direct and Overlapping Governments****June 30, 2005****Last Ten Fiscal Years****(Unaudited)**

Fiscal Year	City	County	School District	Special Districts	Total
1995-1996	.0017	1.0000	.0279	.0425	1.0721
1996-1997	.0016	1.0000	.0337	.0390	1.0743
1997-1998	.0014	1.0000	.0284	.0401	1.0699
1998-1999	.0000	1.0000	.0275	.0322	1.0597
1999-2000	.0000	1.0000	.0256	.0127	1.0383
2000-2001	.0000	1.0000	.0256	.0127	1.0383
2001-2002	.0000	1.0000	.0234	.0136	1.0370
2002-2003	.0000	1.0000	.0572	.0121	1.0693
2003-2004	.0029	1.0000	.0742	.0106	1.0877
2004-2005	.0023	1.0000	.0761	.0092	1.0876

Source: Alameda County Auditor-Controller

City of Fremont
Special Assessment Collections
June 30, 2005
Last Ten Fiscal Years
(Unaudited)

Table 5

<u>Fiscal Year</u>	<u>Assessment Due</u>	<u>Assessment Collections</u>
1995-1996	\$ 11,283,873	\$ 10,998,395
1996-1997	10,668,880	11,981,456
1997-1998	11,734,421	11,680,635
1998-1999	12,168,351	11,980,588
1999-2000	12,041,155	12,070,975
2000-2001	11,555,644	11,250,491
2001-2002	11,609,650	11,448,648
2002-2003	13,630,256	13,752,449
2003-2004	13,027,690	13,001,184
2004-2005	13,224,046	13,166,440

Source: City of Fremont Finance Department, Treasury Division

City of Fremont
Computation of Legal Debt Margin
June 30, 2005
(Unaudited)

Table 6

Under State law, the City has a legal debt limitation not to exceed 15% of the total assessed valuation of taxable property within the City boundaries. In accordance with California Government Code Section 43605, only the City's general obligation bonds are subject to the legal debt limit. With \$34,820,000 in outstanding debt subject to the legal debt limit and a legal debt limit of \$3,923,849,381, the City is not at risk of exceeding its legal debt limit.

Assessed Valuation (Net)	\$ 26,158,995,876 ¹
Debt limit is 15% of Assessed Value	\$ 3,923,849,381
Less Outstanding Debt (Subject to the Legal Debt Limit)	34,820,000 ²
Legal Debt Margin	\$ 3,889,029,381

¹ Alameda County Auditor-Controller's Office Certification

² Table 10, following, describes the composition of all of the City's outstanding debt. In accordance with California Government Code Section 43605, only the City's general obligation bonds are subject to the legal debt limit.

City of Fremont
Schedule of Direct and Overlapping Debt
June 30, 2005
(Unaudited)

Table 7

	Percent Applicable	Debt as of February 1, 2005
<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>		
Chabot-Las Positas Community College District	0.006	\$ 6,000 ^(a)
Ohlone Community College District	80.820	25,450,218
Fremont Unified School District	100.000	144,979,097
Sunol Glen Unified School District	0.339	6,271
City of Fremont	100.000	34,820,000 ^(c)
City of Fremont 1915 Act Bonds	100.000	48,020,000
East Bay Regional Park District	10.471	15,322,738
TOTAL DIRECT AND OVERLAPPING TAX ASSESSMENT DEBT		268,604,324
<u>DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
Alameda County General Fund Obligations	17.805	115,410,942
Alameda County Pension Obligations	17.805	54,636,990
Alameda County Board of Education Public Facilities Corporation	16.805	408,625
Alameda-Contra Costa Transit District Certificates of Participation	21.227	4,401,418
Chabot-Las Positas Community College District Certificate of Participations	0.006	504
Fremont Unified School District Certificates of Participations	100.000	5,370,000
City of Fremont Certificates of Participations	100.000	138,625,000
TOTAL DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		318,853,479
COMBINED TOTAL DEBT		\$ 587,457,803 ^(b)

(a) Excludes share of general obligation bonds dated 8/19/04.

(b) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital leases obligations.

(c) Includes general obligation bonds issued April 15, 2005.

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City of Fremont

Table 8

Percentage of Annual Debt Service for General Debt to Total Governmental Expenditures

June 30, 2005

Last Ten Fiscal Years

(Unaudited)

Fiscal Year	Principal	Interest and Fiscal Charges	Total Debt Service	Total Expenditures	Ratio of Debt Service to Expenditures
1995-1996	\$ 1,321,077	\$ 4,453,773	\$ 5,774,850	\$ 109,599,533	5.27%
1996-1997	1,657,720	4,487,921	6,145,641	122,864,092	5.00%
1997-1998	23,245,000	6,344,378	29,589,378	152,770,299 ¹	19.37%
1998-1999	24,059,059	5,201,493	29,260,552	177,458,705 ²	16.49%
1999-2000	9,547,638	10,284,233	19,831,871	166,018,705	11.95%
2000-2001	2,215,000	8,249,970	10,464,970	196,828,910	5.32%
2001-2002	4,835,000	6,403,944	11,238,944	185,456,314	6.06%
2002-2003	5,385,000	7,541,598	12,926,598	194,503,414	6.65%
2003-2004	6,455,000	8,176,016	14,631,016	200,138,958	7.31%
2004-2005	6,730,000	7,360,443	14,090,443	201,152,579	7.00%

¹ Includes expenditures of \$21,275,000 for the refunding of 1991 and 1993 Certificates of Participation

² Includes expenditures of \$21,719,059 for the refunding of 1993 Certificates of Participation

City of Fremont

Ratio of Net General Debt to Assessed Value and Net Debt Per Capita

June 30, 2005

Last Ten Fiscal Years

(Unaudited)

Fiscal Year	Population ¹	Gross Assessed Value	Gross Debt ²	Debt Service Monies Available
1995-1996	187,931	\$ 14,626,291,854	\$ 61,865,056	\$ 8,017,821
1996-1997	192,160	15,499,780,352	66,382,336	9,063,561
1997-1998	198,710	16,457,063,825	84,146,457	9,232,949
1998-1999	203,600	18,086,444,873	82,125,077	8,128,546
1999-2000	208,000	19,738,791,092	74,690,077	16,136,355
2000-2001	207,169	21,302,269,064	157,085,000	32,194,774
2001-2002	208,600	23,488,463,688	162,555,000	38,513,323
2002-2003	208,998	24,637,985,028	206,350,000	44,310,357
2003-2004	209,080	25,789,124,884	214,105,000	49,757,270
2004-2005	210,445	26,794,975,748	232,375,000	62,696,905

¹ Source: U.S. Census and Department of Finance, State of California

² Gross debt and debt service monies available include all tax allocation bonds and certificates of participation; excluded is special assessment debt and other accrued long-term liabilities.

Table 9

Net Debt		Ratio of Net Debt to Gross Assessed Value	Net Debt Per Capita	
\$	53,847,235	0.3682%	\$	286.53
	57,318,775	0.3698%		298.29
	74,913,508	0.4552%		377.00
	73,996,531	0.4091%		363.44
	58,553,722	0.2966%		281.51
	124,890,226	0.5863%		602.84
	124,041,677	0.5281%		594.64
	162,039,643	0.6577%		775.32
	164,347,730	0.6373%		786.05
	169,678,095	0.6332%		806.28

City of Fremont
Composition of Long-Term Debt
June 30, 2005
Last Ten Fiscal Years
(Unaudited)

Table 10

Fiscal Year	General Obligation Bonds	Certificates of Participation	Tax Increment Bonds	Other	Total
1995-1996	\$ 415,000	\$ 55,750,000	\$ 5,275,000	\$ 425,056	\$ 61,865,056
1996-1997	210,000	60,815,000	5,000,000	357,336	66,382,336
1997-1998	-	79,135,000	4,700,000	311,457	84,146,457
1998-1999	-	77,500,000	4,375,000	250,077	82,125,077
1999-2000	-	74,440,000	-	250,077	74,690,077
2000-2001	-	107,085,000	50,000,000	-	157,085,000
2001-2002	-	115,110,000	47,445,000	-	162,555,000
2002-2003	-	143,660,000	62,690,000	-	206,350,000
2003-2004	10,000,000	141,600,000	62,505,000	-	214,105,000
2004-2005	34,820,000	138,625,000	58,930,000	-	232,375,000

City of Fremont
Demographic Statistics
June 30, 2005
Last Ten Fiscal Years
(Unaudited)

Table 11

Year	Square Miles	Population ¹	County Population ¹	City Population % of County	Alameda County Median Income ²
1996	90	187,931	1,356,102	13.9%	\$ 28,672
1997	90	192,160	1,375,850	14.0%	30,327
1998	90	198,710	1,408,073	14.1%	32,130
1999	90	203,600	1,433,300	14.2%	34,131
2000	90	208,000	1,454,300	14.3%	38,624
2001	90	207,169	1,479,100	14.0%	38,582
2002	90	208,600	1,484,698	14.0%	38,044
2003	90	208,998	1,496,218	14.0%	38,411
2004	90	209,080	1,498,020	14.0%	Not Available
2005	90	210,445	1,507,500	14.0%	Not Available

¹ Source: U.S. Census and Department of Finance, State of California

² Source: State Franchise Tax Board - Personal Income Tax Statistics - All Returns Taxable and Nontaxable

City of Fremont
Construction
June 30, 2005
Last Ten Fiscal Years
(Unaudited)

Table 12

Fiscal Year	Commercial/Industrial		Residential	
	Number of Permits	Estimated Value	Number of Permits	Estimated Value
1995-1996	835	\$ 191,229,575	4,287	\$ 158,551,633
1996-1997	880	240,551,122	4,564	251,255,813
1997-1998	933	279,635,695	4,803	271,048,630
1998-1999	770	119,600,880	5,352	248,200,917
1999-2000	875	193,250,601	4,582	158,243,434
2000-2001	991	229,158,070	4,276	134,146,642
2001-2002	811	145,224,742	4,162	93,908,111
2002-2003	744	88,715,823	3,946	93,082,949
2003-2004	748	131,361,568	4,475	109,895,757
2004-2005	768	164,351,160	4,392	159,569,872

City of Fremont
Major Taxpayers
June 30, 2005
(Unaudited)

Table 13

Major Property Taxpayers	Alameda County Assessor's Office Assessed Value	Percent of 2004/05 Total Gross Assessed Valuation
New United Motors Manufacturing, Inc.	\$ 932,230,574	3.48%
Catellus Development Corporation	256,364,068	0.96%
CalWest Industrial Properties LLC	163,346,965	0.61%
Ardenwood Corporate Park Associates	162,858,293	0.61%
John Arrillago & Richard Peery	154,966,436	0.58%
BRE Properties Inc	146,132,631	0.55%
SCI LP I	134,102,154	0.50%
Renco Investment Company	99,979,994	0.37%
Selco Service Corporation	94,335,503	0.35%
ERP Operating LP	75,636,154	0.28%
Total	\$ 2,219,952,772	8.28%
Gross Assessed Valuation, 2004/05	\$ 26,794,975,748	

Major Sales Taxpayers (listed alphabetically)

Albertsons	Frys Electronics
Anderson Lexus	Home Depot
Arco Am Pm Mini Marts	Lam Research
Auto West Dodge Chrysler Isuzu	Longs Drugs
Auto West Honda	Lowes
Central Chevrolet	Office Depot
Circuit City	PJs Construction Supplies
Claridges BMW	S & S Tool and Supply
Claridges Mercedes Porsche	Safeway
Costco	Sysco Food Services
Dale Hardware	Target
Fei Company	Walgreens
Fremont Toyota	

City of Fremont
Miscellaneous Statistical Data
June 30, 2005
(Unaudited)

Table 14

Date of Incorporation	January 23, 1956
Form of Government	General Law City governed by City Council and administered by a City Manager
Employees (per adopted FY 2004/05 budget):	
Fire protection	153.00
Police protection	299.10
Other classified employees	440.20
Total employees	<u>892.30</u>
Community Services:	
Parks	52
Community centers	5
Fire Stations	10